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GRADUATE SCHOOL OF BUSINESS
UNIVERSITY OF CAPE TOWN

COMPARATIVE ANALYSIS OF FINANCING INSTRUMENTS USED BY DEVELOPMENT FINANCE INSTITUTIONS: LESSONS FOR BRICS DEVELOPMENT BANK.

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By

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ABSTRACT

Financing instruments are the means by which development finance institutions carry out their mandate of addressing the socio-economic needs of the country, group of countries or a region. It is of great importance that the development and application of financing instruments should be in line with the objectives for which the development finance institutions were established.

The literature reviewed was intended to establish the reasons for the existence of development finance institutions and their role in private sector development. Furthermore, literature was reviewed to establish various financing instruments developed and applied by development finance institutions.

The study is premised on the fact that new DFIs can be complementary thus an assessment of DFIs will provide instrument and sectoral gaps which the BRCIS Bank can take advantage of. As such, the study was to examine the financing instruments that development finance institutions (DFIs) use to address their economic objectives and identify lessons for the BRICS (Brazil, Russia, India, China and South Africa) Development Bank. The study employed the qualitative exploratory research strategy. Documents and in-depth interviews were used as data. The sample included major multilateral, regional and bilateral development finance institutions operating in developing economies, including BRICS countries.

The author established that there are varied founding objectives of development finance institutions and that there is wide use of traditional financing instruments of debt and equity. However, there is limited use of innovative financing instruments such as project finance and those applied in Public Private Partnerships (PPPs).

The main recommendation made is that BRICS Bank should take advantage of the existing instrument and sectoral gaps if it is going to survive not only as a competitor but a complementary DFI. In addition it should consider the introduction of innovative instruments that take into account developing and emerging economies realities. In light of mission drift and agency issues the BRICS Bank should have robust governance and monitoring & evaluation frameworks that will ensure that its founding objectives are pursued

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GLOSSARY OF TERMS

ADB	Asian Development Bank
ADF	African Development Fund (AfDB)
ADFIP	Association of Development Financing Institutions in the Pacific
AFD	Agence Française de Développement (French Development Agency)
AfDB	African Development Bank
BOD	Board of Directors
BOG	Board of Governors
BOOT	Build, Own, Operate, Transfer
BOT	Build, Operate, Transfer
CDC	CDC Group plc (UK)
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH (German Investment Corporation)
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
ESG	Environmental, Social and Governance
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
IADB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
MDB	Multilateral Development Bank
MDG	Millennium Development Goa
OECD	Organisation for Economic Co-operation and Development l
PROPARCO	Société de Promotion et de Participation pour la Coopération Economique (Investment and Promotion Company for Economic Cooperation)
PPP	Public–Private Partnership
PSD	Private Sector Development
RMC	Regional Member Countries
SME	Small and Medium-Sized Enterprise
SwedFund	Swedfund International AB (Sweden)
TA	Technical Assistance
UA	Unit of Account

UK	United Kingdom
UN	United Nations

Currency exchange rates as at 31 December 2013:

1 ZAR = 0.09527 USD (http://usd.fx-exchange.com/zar/2013_12_31-exchange-rates-history.html)

1 EUR = 1.37552 USD (http://usd.fx-exchange.com/eur/2013_12_31-exchange-rates-history.html)

1UA = 1.540000 USD (Annual Report 2013 –Part III-Financial Management and Financial Statements ADB-Note V-1)

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I dedicate this dissertation to my late grandfather Wilson ka Zinto ka Ntsaluba (1882 – 1946), the pioneer of education in our family.

CHAPTER ONE: INTRODUCTION

1.1 Research Area

There has been a growing outcry against most Multilateral Development Banks (MDBs), most of which are sponsored by Western nations, for their failure to take into account emerging country needs and dynamics. The institutions have been accused of failing to develop products that take into account realities of these nations and adopting political stance of their masters.

In response, emerging economies have started developing their own state owned and regionally backed DFIs. This move has been driven largely by the fact that some Asian, African and Latin American economies that are the proponents of change at traditional MDBs have access to large foreign exchange reserves to finance the creation of DFIs.

Additionally, the increasing financing gaps in Asia, Latin America and Africa are unlikely to be met by existing institutions or private capital. Furthermore, existing institutions are increasingly reluctant to commit large portions of their funding to key priority areas of emerging economies. There is thus a need for the emergence of developing and emerging economies to be backed by DFIs that will fill the existing gaps and avoid excessive and sometimes inappropriate conditionality attached to the MDB funding.

The institutions of such emerging economies are expected to provide funding that is consistent with the priorities set by the respective developing country's government. In addition, the DFI should also strengthen objectives of regional and trade integration, for example BRICS and SADC. Noteworthy is the fact that this approach has been applied successfully by the European Union, where the European Investment Bank (EIB) was created with a clear mandate and instruments for supporting European integration.

Another European example was the creation of the European Bank for Reconstruction and Development (EBRD), which was created to assist the countries of Central and

Eastern Europe and the Commonwealth of Independent States in their transition to the market, through promoting the development of the private sector.

The recent global financial crisis of 2008 has resulted in increased calls for the establishment of regional developments banks. Notable is the announcements by the Argentine and US governments, in 2009 and 2011, respectively, of their intention to create a national development bank and revamping of their development banks (Lazzarini et al., 2011). It is also important to note the paucity of sub-regional development banks in the BRICS economies, with the notable one in existence being the Asian Development Bank, has motivated calls for development of institutions dedicated for the region.

The socio-economic and development priorities of a country, countries, group of countries or a region are a major consideration when decisions are taken to establish a development finance institution (DFI). These priorities are then structured into a founding mandate of a development finance institution, which then informs its strategic objectives. Thereafter, DFIs develop and apply financing instruments in pursuit of the implementation of the strategic objectives.

DFIs, which include development banks, have been in existence for over 350 years. Their role has largely been to contribute to economic growth, thus leading to economic development. Existence and prevalence in developing economies is a manifestation of the under-development of the financial markets within those countries. As such, DFIs exist as a form of state assistance or intervention to deal with lack of depth of the capital markets. In pursuit of their objectives, DFIs have had to come up with financing instruments that take into account their development mandate. The role of DFIs is significant in the advancement of socio-economic growth in developing countries. It is against the background of this fundamental role played by the development finance institutions that a critical analysis of the financing instruments used by the development financial institution is of importance.

There are a number of financing instruments available to development finance institutions at any given point. These include debt, equity, quasi equity, grant funding, concessionary funding, venture capital approach, intermediaries, issuing of guarantees, to mention but a few.

The acronym BRICS is a collective description of the governments of the Federative Republic of Brazil ("Brazil"), the Russian Federation ("Russia"), the Republic of India ("India"), the People's Republic of China ("China") and the Republic of South Africa ("South Africa"). The BRICS countries have deemed it necessary to establish a Development Bank. This decision has been taken in the presence of many development finance institutions already servicing the developing countries generally and BRICS countries in particular. The decision to establish a BRICS Development Bank is a manifestation that the economic development needs of the BRICS countries are not met by the existing DFIs. The existing DFIs are either not taking into account the developmental priorities of the BRICS countries or their design and application of financing instruments are not dealing with the specific development imperatives of the BRICS countries. It is against this perceived lack of deployment of appropriate financing instruments that the governments of the BRICS countries have decided to jointly mobilise their economic resources to set up the BRICS Development Bank.

The BRICS countries have held five summits over recent years. Of particular interest and significance to this thesis is Declaration 9 of the eThekwini Declarations, arising out of the fifth BRICS summit. This declaration states:

> ". ...in March 2012, we directed our Finance Ministers to examine the feasibility and viability of setting up a new Development Bank for mobilising resources for infrastructure and sustainable development projects in BRICS, to supplement the existing efforts of multilateral and regional financial institutions for global growth and development. Following the report from our Finance Ministers, we are satisfied that the establishment of the new Development Bank is feasible and viable. We have agreed to establish the new Development Bank...".

The intention to establish the BRICS Development Bank, discussed in New Delhi in 2012 and in Durban in 2013, was then concretised 15 July 2014 by an agreement reached and signed in Fortaleza, Brazil to establish the new BRICS Development Bank. This date thus marked both the formalisation of the establishment of the BRICS Development Bank as well as formalising the name for this institution, "New Development Bank". The pre-amble to the agreement (15 July 2014) states, "The Governments of the Federative Republic of Brazil, the Russian Federation, the Republic of India, the People's Republic of China and the Republic of South Africa, collectively the BRICS countries, have agreed as follows: Article 1- Establishment: The New Development Bank (hereinafter "The Bank") established by this agreement...". It is from this Article 1, above that the new name, "New Development Bank" of the institution that had been referred to previously as the BRICS Development Bank, was given. For the purposes of consistency with existing literature, however, the New Development Bank shall hereafter be referred to as the BRICS Development Bank.

1.2 Problem Statement

The effectiveness of development finance institutions in achieving their set objectives is dependent on the financing instruments that are developed and used by these institutions. Thus, it is imperative to ascertain how the objectives of the development finance institution are incorporated in the design, selection and application of financing instruments. Furthermore, there is need to ascertain the other factors that influence the design, selection and application of financing instruments.

Even though Brazil, Russia, India, China and South Africa each have their own development finance institutions and also belong to at least one regional or multilateral development finance institution as full members, the development needs of their own respective countries are still significant. The World Bank Development Indicators (2014) refer to some of the glaring deficiencies as that exist, despite the existing DFIs: Brazil's youth unemployment rate for males (2010 to 2012) stood at 12.57%; Russia's government effectiveness measure ranked at -0.43 in 2012 (on a scale of -2.5 to +2.5); India has 32.7% of its population living on less than $1.25 per day, in 2012. According to StatisticsSA (2014), South Africa's official unemployment rate in the third quarter

of 2014 stood at 25.4%; unreported figures are significantly higher. Furthermore, according to the Union of Concerned Scientists (2011), based on 2011 data, and according to the US Energy Information Administration Report (2012), China was the leading country in CO_2 emissions.

Based on these and other challenges in the BRICS countries and the essential developmental aspirations of the BRICS countries, the objective of the study is to assess and understand the many financing instruments used by various development finance institutions, and how these are developed and applied to achieve the founding objectives of the DFIs. Given the fact that the BRICS Development Bank is being established long after the various development finance institutions had been established in pursuit of economic development, the study of the current financing instruments offered by existing development finance institutions will provide a thorough insight into the financing instruments that the BRICS Development Bank can employ in pursuit of its economic objectives. Furthermore, the analysis will provide sufficient evidence of the gaps in the existing range of financing instruments. Further, the study seeks to understand the disposition of the current financing instruments used by development finance institutions in funding the private sector.

The study will build on the generic work that has been done in the field of finance and accounting on which financing instruments are considered suitable or appropriate for different funding requirements. The study will use the stated objectives in the current discourse on the development of the BRICS Development Bank as a base in shaping the lessons for the BRICS Development Bank.

The study should contribute towards a better understanding of the financing instruments used by DFIs, including the mixes they use, the outcomes intended to be achieved by such selections, the factors considered and their disposition towards the private sector.

The purpose of the study is to examine the financing instruments of development finance institutions that have been used by multilateral, regional and domestic

development finance institutions to address their economic objectives and also whether any lessons can be drawn for the BRICS Development Bank.

Given the clear motivation for the creation of new development finance institutions, of which the BRICS Bank is one, it is vital to note that while the institutions are created to pursue a political agenda, they may also play a complementary economic role. As such, it is essential to avoid too much duplication of services and products currently being provided by existing MDBs and DFIs within their own jurisdictions and regions.

This study thus seeks to conduct a review of the financial instruments of DFIs, with a view of informing the development of the BRICS Bank product and services boutique. The study will inform on the instrument gap that the BRICS Bank can exploit if its contribution is to be meaningful.

1.3 Research Questions and Scope

This research provides a critical analysis of the financing instruments currently employed by development finance institutions. The following research questions have been formulated.

a) What are the financing instruments used by the development finance institutions?
b) What are the factors that influence the development of financing instruments?
c) What are the lessons learnt for the BRICS Development Bank as it develops its financing instruments?

Research Objectives

The objectives of this study are as follows:

a) To understand the many financing instruments used by various development finance institutions and how these are developed and applied.
b) To establish the factors that influence the development of financing instruments
c) To establish the lessons learnt for the BRICS Development Bank in the context and in the process of developing its financing instruments.

The scope of the study includes major multilateral development finance institutions. It will also include regional development finance institutions, based in the regions where the BRICS countries are located and at least one DFI based in South Africa. In particular, an in-depth study on one DFI per each of the BRICS member countries is done.

1.4 Purpose and Significance of the Research

Considering that development finance institutions are set up to achieve the goals and priorities of a nation, region, continent or group of countries, the study will provide insight into whether indeed the development finance institutions structure their financing instruments to achieve these priorities. This is especially so given the argument of "mission drift", where development finance institutions are accused of diverting from their core mandate.

Whilst there is a lot of available literature on the generic nature of the various financing instruments, the body of knowledge on various financial instruments being used by development finance institutions is not sufficient.

There is an evident gap in knowledge relating to the alignment of development financing instruments of development finance institutions to the founding mandates designed by the founding country, region, continent or group of countries and their stated objectives. The study assists in bringing to the fore the significance of the linkage, so that future designs and evaluation of the development finance institutions in general and the BRICS Bank specifically should be more objective and informative.

The study is significant in understanding the extent to which ESG matters are considered in the design and application of financing instruments. If the tools to measure development finance institutions are understood fully, specifically financial and operational performance, such information can be used to structure proposed financing instruments. (Smallridge & de Olloqui, 2011).

The study further demonstrates how understanding of the founding mandates is essential in the design of the financing instruments. The support given or to be given to

the private sector by development finance institutions in the deployment of the financing instruments has also not been investigated thoroughly prior to this research.

The study will help in informing the BRICS Development Bank, which is still in its infancy stages, on the appropriate financing instruments available for the achievement of the BRICS Development Bank's founding and strategic objectives.

Furthermore, it is critical that the BRICS Development Bank should be enabled to draw lessons on the financing instruments used by the development finance institutions and improve to ensure that the financing instruments developed and applied by the BRICS Development Bank will serve the development needs of the BRICS countries in general and South Africa in particular.

The critical analysis of the financing instruments will also enable policymakers to understand whether their financing instruments are aiding private sector growth. This is in view of the fact that the private sector plays an important role in overall economic growth of a country and a region.

The role of the private sector has been articulated well by Dalbeg Development Advisors (2010) in stating that, "It is in their financing models that the development finance institutions can make a difference to business growth. It is important that the objectives of the development finance institutions must consider the private sector and its financing models must also be directed towards the private sector."

1.5 Research Assumptions

In conducting this study, the author assumes that the published annual reports contain factual, reliable and up-to-date information. The author further assumes that the official websites of the respective institutions contain factual and up-to-date information.

1.6 Organisation / Structure of the Study

The study is organised as follows:

Chapter two provides in-depth reviews of the literature dealing with financing instruments used by development finance institutions. The literature reviewed ranges from the analysis of the founding objectives of the development finance institutions to factors taken into account in the design and application of finance instruments of development institutions. Empirical analysis is intended to establish lessons learnt for the BRICS Development Bank.

Chapter three deals with the methodology used to obtain the data. It also covers the sampling method used as well as the limitations of the study.

Chapter four deals with findings of the study and provides brief interpretations of the findings with reference to literature and the set objectives.

Chapter five, the last chapter, provides the discussion of the results, detailed conclusions to be drawn from the study and the recommendations for further research. It also provides recommendations of the financing instruments to be considered by the BRICS Development Bank.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter reviews published literature that can provide a better understanding of development finance institutions, their role in the economy and any apparent trends. The author examined available literature to gain an understanding of what financing instruments are and how they are developed, including their use as a means of achieving the objectives for which development finance institutions were established. He also researched existing literature for factors considered by DFIs when designing and applying financing instruments, including, in particular, ESG. The chapter also considers the rationale for the establishment of the BRICS Development Bank and reviews the development priorities of South Africa.

2.1 Perspectives of Development Finance Institutions

2.1.1 Defining development finance institutions

Scharf and Shetty (1972) described a development finance institution (DFI) as an institution promoted or assisted by government mainly to provide development finance to one or more sectors or sub-sectors of the economy. They postulated that the institution distinguishes itself from private financial institutions through its developmental orientation. As such, DFIs are expected to focus on long-term finance and assistance on activities or sectors of the economy that are ordinarily excluded by traditional financial institutions due to their high risks.

Consistent with earlier literature, Armendáriz de Aghion (1999, p.83) noted that "development banks are government-sponsored financial institutions concerned primarily with the provision of long-term capital to industry". The definition brings to the fore two key issues; the issue of state ownership and credit market failures in maturity transformation. The traditional institutions are believed to fail to fund projects with long-term maturity.

In support of the concept of public intervention in the banking system, Gerschenkron (1962) argued that state participation deepens credit markets through restoring trust

among creditors and debtors. Under this argument, state intervention will enable risky, but value-enhancing projects to be funded.

de Aghion (1998, p.83) described development banks as being "...government-sponsored financial institutions concerned primarily with the provision of long-term capital to industry". Friedman (2002) advocated for a limited scope of government. However, he recognised the role of government as an enabler – at times – to accomplish jointly what would be found to be more difficult or expensive to accomplish severally. The major functions of government, according to Friedman (2002), include preservation of law and order, the enforcement of private contracts and the protection of citizens from external enemies.

Dalberg Development Advisors (2010) viewed development finance institutions as specialised financial institutions that invest in developing countries. They saw them as seeking to invest in projects that would not receive funding without their involvement. This view was echoed by Kwakkenbos and Romero (2013), who introduced the other dimension of development finance institutions, as having the ability to focus on high-risk investments in sectors where access to capital markets is limited.

Types of DFIs

Kwakkenbos and Romero (2013) and Griffith et al. (2012) categorised development finance institutions into two groups: bilateral development finance institutions, which they described as "either government owned or the government is the majority shareholder", and multilateral development finance institutions, described as those, "...which are usually connected to the international financial institutions...provide a forum in which governments act together".

Development financial institutions can be categorised into the following broad classes:

- ✓ Bilateral DFIs (CDC, DEG, FMO, PROPARCO)
- ✓ Regional DFIs (EBRD, EIB, IADB, ASB, AfDB)

- ✓ Multilateral (IFC).

2.1.2 History of DFIs

There is general agreement in literature that the history of development banks can be traced back to the 19th century. The divergence in opinion, however, exists as to which institution was the first DFI. On one hand, Diamond (1957) argued that DFIs are a post-World War II and post-colonial development. He argued that DFIs were designed to bolster economic growth through provision of national and regional development focused support.

On the other hand, other authors such as Armendáriz de Aghion (1998) argued that the Sociéte Général pour Favoriser l'Industrie National in the Netherlands (1822) was the first development finance institution, followed later on by a group of institutions in France, including Crédit Foncier, Comptoir d' Escompte and Crédit Mobilier, all between 1848 and 1852, with the latter operating in the European infrastructure investments space.

By the turn of the 20th century, demand for DFIs significantly increased because of the need for reconstruction following the World Wars and the Great Depression of 1929, which had resulted in the shortage of long-term funds in the US and Europe. Various governments responded to these challenges by introducing their DFIs, namely the creation of Germany's KfW (Kreditanstalt für Wiederaufbau) in 1948, Japan Development Bank (JDB) in 1951, and the Brazilian BNDES, which was created to provide long-term credit after the retraction of bond and equity markets.

The drive for creating DFIs also occurred in response to studies published by Furtado (1959), Hirschman (1958) and Prebisch (1950), who − through their development theories − postulated that the state could spur growth. This was mainly through addressing structural weaknesses that had been noted to inhibit the industrialisation of underdeveloped countries. Amsden (1989) argued that in addition to providing long-

term funding, DFIs such as the Korea Development Bank, were also set up to provide a mechanism to screen good private projects, establish well-defined performance targets and monitor the execution of investments.

The success of DFIs was met with enthusiasm by developing countries that decided to establish their own DFIs. The result was not necessarily as predicted. Micco et al. (2005) noted that many of these banks collapsed, resulting in huge fiscal deficits and poor development outcomes. The World Bank Report (1989) noted a plethora of factors that contributed to such collapses, namely: financial, political and management problems. Typical of developing economies, corruption was also singled out as one of the key causes. Noteworthy is the fact that the report also attributed the collapse of these DFIs to their failure to reconcile the conflicting objectives of maintaining financial sustainability while pursuing socially-desirable outcomes.

2.1.3 Approaches to DFIs

Léonce Ndikumana (2006) identified two theories to DFIs, namely the traditional and new generation approaches. In his study, he noted that the traditional approach to development finance institutions was anchored on a government-led economic development. As such, governments created institutions that would implement policy targeted at certain sectors of the economy.

Typical of government led institutions, Yaron et al. (1998: 149) noted undesirable elements that arose from the approach, such as a *poor credit culture*, high default rates, undiversified portfolios and mis-targeted credit allocation. It was also noted that the availability of government resources undermined incentives for seeking alternative sources of funding on the part of development finance institutions.
In addition, given the fact that the funds were lent at suboptimal rates, the DFIs were not able to raise funding from the open market.

The collapse of the traditional approach led to new order concepts emerging. In terms of the new generation approach, Ndikumana (2006) postulated that focus moves to the need for financial sustainability and the creation of an environment that fosters financial

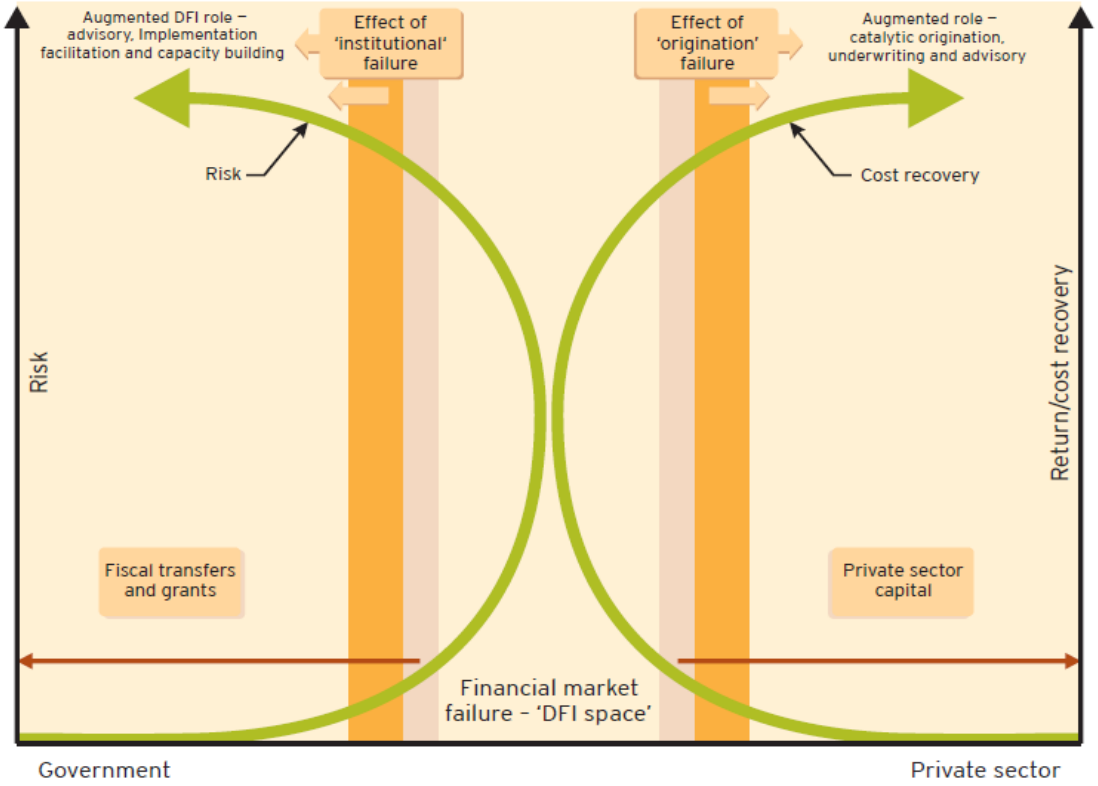
intermediation in the traditionally excluded areas. In terms of this approach, the role of government is to create an environment that provides incentives for financial institutions to venture into new areas and activities. This is largely reflective of the increased proliferation of DFIs that are PPPs with a large component of debt arising from the private sector.

2.1.4 Roles of Development Finance Institutions

Mistry (1992) postulated that DFIs address market, political or bureaucratic imperfections and asymmetry arising from perceived or actual financial risk by delivering a structured package of support to their clients. The study noted that the most classical role of DFIs is to fill the gaps in domestic fiscal and term-lending capabilities of underdeveloped and developing countries. DFIs are expected to fill the gaps emanating from capital market inefficiencies and exclusion.

On the one hand, DFIs are supposed to provide capital to countries, projects or clients that are not considered creditworthy by private capital. Most low-income countries and companies therein do not have sovereign credit ratings that are up to investment grade; which influences negatively their ability to attract affordable private investment. By taking on this risk, DFIs allow development projects to begin when they otherwise may not have started, or to continue when otherwise plans may have been abandoned due to a lack of long-term financing and expertise (Bruck, 1998; Yeyati, Micco & Panizza, 2004).

Gurria and Volcker (2001) concurred and pointed out that history had repeatedly shown that access by emerging market countries to private capital markets was “unreliable, limited and costly”. They also expected to fill a void left by both the state and private players, on condition that there is cost recovery. This particular DFI role in support of development finance is illustrated below:



Source: Gumede et al. (2011); Role of South Africa's state owned DFIs in building a democratic development state

In terms of this approach, DFIs are expected to finance only income generating projects that enhance the chances of cost recovery with only public goods being funded by governments and the private sector funding only private goods. The study, however, noted the potential for co-funding together with the private sector and for various tripartite funding modalities.

Kingombe, Massa and te Velde (2011) attributed the emergence and continued existence of development finance institutions to "market failures'. They noted that DFI interventions are greatest (compared with other instruments such as grant aid and based on the comparative advantage of the DFI) in sectors that matter most for development. The Association of Development Financing Institutions in the Pacific (ADFIP) acknowledges the above concept as the traditional definition by adding that "development banks fill a gap left by underdeveloped capital markets and reluctance of commercial banks to offer long-term financing."

Banda (2013) noted one of the intended roles of DFIs as catalystic. As such, DFIs can be used as a catalyst to help attract and mobilise private sector involvement in projects. The mere involvement of a DFI, in whatever form, either provides guarantees, or debt or equity participation is expected to encourage private investors. In instances where DFIs act as catalysts, they ultimately get crowded out of an investment, area or sector by private investors. This finding is consistent with research conducted by Griffith-Jones and Ocampo (2002), who viewed a DFI as market maker or guarantor.

Velde and Warner (2011) argued that the common mandate for all DFIs is to foster economic growth and sustainable development. They postulated that DFIs have a special mandate to provide financing exclusively to the private sector and emphasised the importance of financing long-term viable enterprises because only profitable sustainable business will contribute to growth in the long run. These authors highlighted a related objective of increasing impact by demonstrating the benefits of successful investments to other suppliers of capital and, by so doing, raising the amount capital mobilised. This would contribute to the development of the financial sector as a whole.

Te Velde and Warner (2007), on the other hand, noted a number of objectives, including among others, investing in sustainable private sector projects; maximising impacts on development; long-term financial viability; and mobilising private sector capital. Griffith-Jones et al. (2008), while concurring with the long-term view to development financing, introduced the issue of provision of concessional loans to low-income countries.

DFIs' roles have also been highlighted from an industrial policy view. In terms of this view, development banks are able to influence policy by providing firms with funding that has conditionality. The DFIs can attach conditions such as operational improvements, environmental considerations and performance targets to their funding (Amsden, 2001). As such, industries that access funding are expected to improve their performance in line with the conditions. A case in point is the issue of ESG and responsible investing that has largely been driven by DFIs.

Researchers have also considered the political view to DFIs. In terms of this view, lending is usually pursuant to political considerations such as bailouts, which is consistent with the soft-budget constraint hypothesis, according to Kornai (1979). In addition to this factor, the political view also explores the *rent-seeking* behaviour of politicians. In terms of this argument, DFIs are created to maximise personal objectives or engage in patronage deals with politically-connected industrialists (Ades & Di Tella, 1997; Faccio, 2006; Hainz & Hakenes, 2008; La Porta, Lopez de Silanes & Shleifer, 2002). To illustrate this view, the authors noted that rent-seeking capitalists may request subsidised credit or cheap equity even in cases where projects normally would be funded and launched using private sources of capital.

There have been debates for and against the political view, with some arguing that the mission of DFIs was to provide such kind of intervention; while others argue that the development of the mission or objectives is in itself not clear and these have sometimes been linked to political objectives (Ades & Di Tella, 1997). To confirm this, a study by Claessens, Feijen and Laeven (2008) noted that political factors such as election cycles and campaign donations tended to influence financing.

Gumede, Govender and Motshidi (2011) argued that development finance institutions are expected not only to address market failures, but also broader development policy objectives, including private sector development, employment creation, income redistribution, developing new industrial sectors and boosting weak ones.

Furthermore, Gumede, Govender and Motshidi (2011) attributed a dual role to development finance institutions, those being the financing of development projects and playing a key role in economic development strategies of their countries.

Sufian and Hassan (2011), when referring to ASEAN countries, argued that given the underdevelopment of capital markets in these countries, it is reasonable to assume that the importance of banks as financial intermediaries is more prevalent in this region. One of the key reasons for development finance institutions to be prevalent is because

of the lack of developed financial markets. Sufian and Hassan (2011), when considering commercial banks, argued that the banking sector plays a crucial role in converting deposits to investments. In their view, developing countries' financial markets are undersized and sometimes completely absent and therefore, the banking sector bridges the gap between savers and borrowers.

Hermann (2002) argued that conditions for development of long-term financing deals are more difficult to achieve in the less developed economies. One of the alternatives is the creation of public institutions and instruments to support and promote long-term financing. He noted that in the instance of Brazil, the main obstacle to the development of long-term financing mechanisms was not financial regulations, but rather the environment of uncertainty and risk aversion.

2.2 Financing Instruments

Development finance institutions are established to serve a purpose, which is codified in their founding documents. It is from this purpose that the strategic objectives are set by the governing structures or could even be set by the founding institution, usually a government or governments. Once the strategic objectives are set, the means to achieve the strategic objectives are the financing models to be adopted and used by the development finance institution. The selection and the mix of the funding models have an impact on the success of the recipient of the funds from the development finance institution, on the understanding that it is the recipients that are driving economic growth.

Velde D (2011) noted that while DFIs used a variety of instruments, there was little theoretical and empirical evidence on the most appropriate instruments. The study noted that equity, loans, ODA and technical assistance as some the instruments that DFIs use. In addition, the study revealed that instruments employed depend on project size, project level and the level of expertise of the DFI as part of the considerations that are taken to choose the appropriate product.

The development finance institutions, in the application of their funds, utilise various financing instruments, which, according to Kwakkenbos and Romero (2013) range from direct loans to equity investments. They noted a rapid rise in the use of equity instruments in domestic and non-domestic private sector enterprises in developing countries.

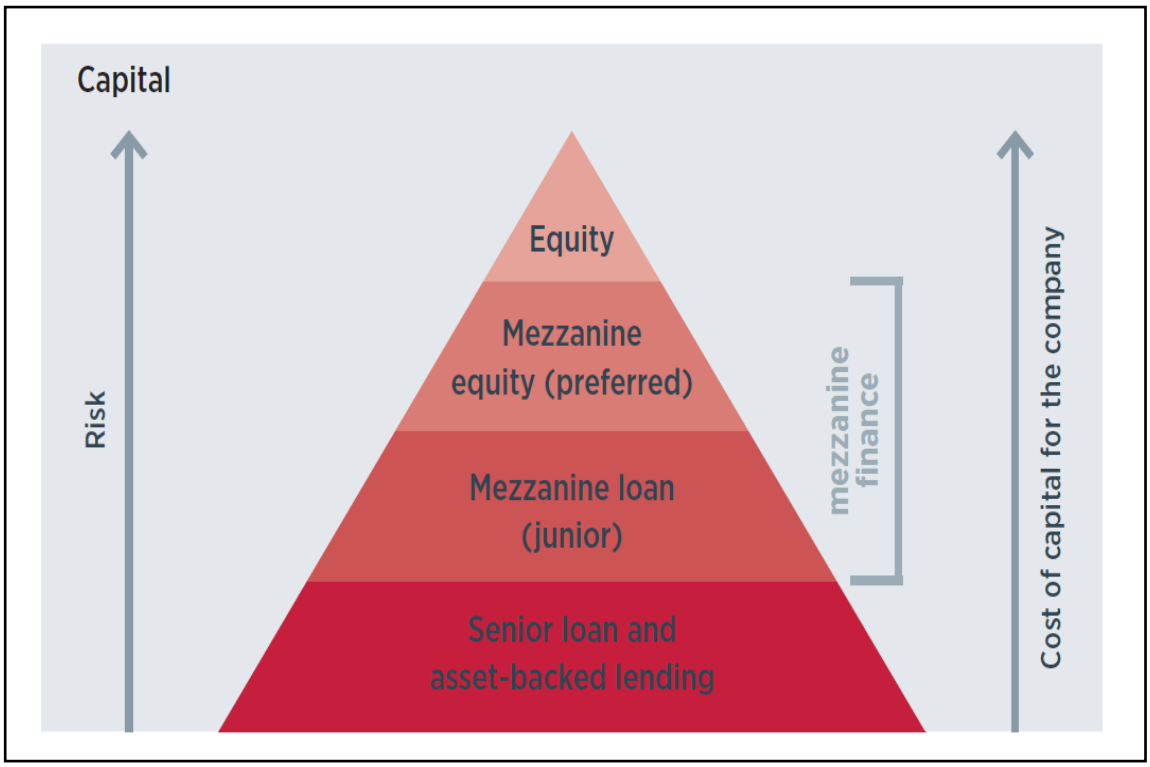
Dalberg Development Advisors (2010) noted the emergence of co-investing as a separate financing instrument that has grown in prominence in the development finance space. They noted that DFIs invest in projects that would not receive funding without their involvement to attract co-investors from the private sector, who otherwise would not have invested in those projects or countries. The results of this study confirm earlier studies by Saddiki and Auerbach (2004), which described one of the roles of financial institutions as the tasks of diversifying risks through syndication. In support of co-financing, de Aghion (1998) focused his paper on development banking as an activity that can disseminate expertise in the financing of new industries and sectors, attempt to understand the targeting of sectors and get involved in co-financing requirements.

The other form of financing instruments, being concessionary and subsidy, was explained by de Aghion (1998), who advocated for state subsidies to be directed towards new industrialised sectors while not advocating for joint ownership. He posited that by government agencies taking part in co-financing, that is, through joint funding, unnecessary joint ownership of projects might be avoided.

Studies by Ergungor (2001) and Kingombe, Massa and te Velde (2011) noted the use of guarantees and or bank commitments, albeit, to a limited extent. They believed that DFIs are increasingly using guarantees to aid the private sector to access funding from the conventional markets. Kingombe, Massa and te Velde (2011) further stated that the majority of committed portfolios of development finance institutions consists of loans.

The nature and size of financing instruments employed by DFIs was seen to vary with risk and cost of funding. Figure 1 below illustrates the risk – instrument choice dynamics:

Figure 1: Financial instruments, investor risk and company's cost of capital



Source: **(**Romero & Van de Poel, 2014)

Financing instruments come with some risks, which should be prevented, where possible. Marshall and Rochon (2010), looking at South America, argued that publicly owned banks, in spite of their lack of various pressures, margins and growth; should not inhibit economic development or weaken the functioning of the banking system. Emphasis was placed on achieving maximum collective benefits at a minimum cost to individual countries.

Griffith-Jones et al. (2008) noted the traditional financing instrument of development financial institutions as loans, typically of long maturities. The authors postulated that the key reason for the creation of DFIs was to correct market imperfections with regard to a funding mismatch, where the funding requirements are generally long-term in nature. An example is the funding of infrastructure development, which requires long-term funding. As such, long-term conventional loans are more appropriate for this nature of projects undertaken. In instances where market failures are considered

temporary, DFIs tend to provide hybrid and innovative funding instruments.

In addition to long-term loans, Ocampo and Griffith-Jones (2006) noted that development finance institutions, in their role as market makers, also offer local currency- and GDP-linked bonds to deal with the pro-cyclical effects of financial markets. These financing instruments tend to distribute the risk faced by developing countries better throughout the business cycle.

Use of local currency bonds have risen to prominence due to their ability to mitigate against foreign exchange risk. Whereas private investors would traditionally shun local currency bonds, DFIs tend to develop financial markets of emerging economies through participating in such space. Consequently, this reduces the cost of funding and lengthens the tenure of loans, thus creating a more stable source of local funding for both the private and public sectors.

In addition to the use of local currency bonds, in its market-making mandate, DFIs are also increasingly using risk-mitigation instruments, such as guarantees, where appropriate, to promote private sector participation in financing projects such as infrastructure financing and SME funding, which would otherwise not be feasible due to credit rationing.

In line with their mandate of promoting growth, there seems to be an increasing level of innovation by DFIs. One of the innovations is the creation of instruments such as GDP-linked bonds to promote development. The GDP-linked bonds, by nature, follow the GDP cycle, that is, the return is higher in times of rapid growth and lower when growth is slow or negative. As such, the instruments are largely viewed favourably due to their ability to smoothen funding through the cycle, thus significantly reducing the likelihood of costly and disruptive defaults and debt crises. A temporary reduction of a country's debt service, when the economy deteriorates, would facilitate more rapid recovery (Griffith-Jones & Shiller, 2006).

te Velde (2011) observed that DFIs are increasingly participating in equity positions

and general technical assistance (TA) and promote standards in the funds or companies in which they invest. They estimated that annual accounts of the main DFIs showed around $33 billion-worth of new DFI investments in the private sector in 2009 (in the form of loans, guarantees and changes in equity positions). The largest DFIs include IFC, EBRD and EIB; these are followed by a number of large bilaterals (DEG, FMO, CDC and PROPARCO) and then a long list of small DFIs.

A study conducted by Ebert and Posthuma (2011) concurred with the earlier findings of te Velde by noting that DFIs provide a wide range of financial services, in particular loans (unsecured or secured against collateral), equity and quasi-equity (which involves acquiring ownership in the company concerned) (Penfold, 2004, pp.23). It is noteworthy that the study identified the fact that DFIs were also providing finance through financial intermediaries and financial expert advice.

Musasike (2004) noted the emergence of Public Private Partnerships (PPPs) as important financial instruments through which DFIs could structure their "development banking" portfolios by mobilising resources in partnerships with private sector players. The major products emanating from this included equity, quasi-equity instruments, senior debt, subordinated debt and guarantees, syndication underwriting and arranging.

2.3 Financing Instruments and their Practicalities

The analysis of benefits and challenges of different financing instruments are captured in the table below:

Table 1: Possible benefits and potential problems with different instruments

Instrument	Possible recipient benefits	Potential problems
Loans	Clear cost of finance – represented by interest More stable than equity in relation to changes in ownership	Potential debt impacts (private and/or public)
Mezzanine	Lower costs than equity if senior loans unavailable Increased creditworthiness	Additionally very difficult to assess Increases private debt
Blended loan	Reduce perceived risk for projects/countries Cheaper financing/additional technical assistance	Unclear financial and development additionally Unclear alignment with partner country development objectives Insufficient transparency and accountability Unclear monitoring and evaluation
Direct equity	Increased debt-free financing Increased creditworthiness	Unclear demonstration effect as links between public and private equity in companies' capital is difficult to track Challenging to reach SMEs or informal companies Potential volatility
Investment funds	Easy for accessing various investors Increased creditworthiness and access to risk capital	Confidentiality constraints hamper transparency and accountability It can increase private debt if companies are loaded up with debt used to buy them Risk of asset sale out to lower debt burden

Source: (Romero & Van de Poel, 2014)

One of the other financing instruments that has been considered is project finance. The significant attribute of project finance highlighted by Gatti (2008) is that its application does not depend on the soundness and creditworthiness of the sponsors that are the parties proposing the business idea to launch the project.

Project finance was noted by Gatti (2008) in a foreword that "project finance has also been gaining global financing market share, especially as a vehicle for channelling development capital to emerging markets". This view is apt, considering that development finance institutions channel their resources predominantly to emerging markets.

The public private partnership (PPP) was defined by De Clerck, Demeulemeester and Herroelen (2012 p.247) as “a settlement between a public party and a private sector company to engage in a long-term contractual agreement for designing, building and operating capital intensive projects while trying to attain value for money by the appropriate allocation of risks.” They concluded that the most frequently stated advantages of PPPs are public benefits cost savings and the risk management opportunities. Some of the risks identified by De Clerck, Demeulemeester and Herroelen (2012 p.247) were moral hazard and adverse selection troubles that are harder to detect.

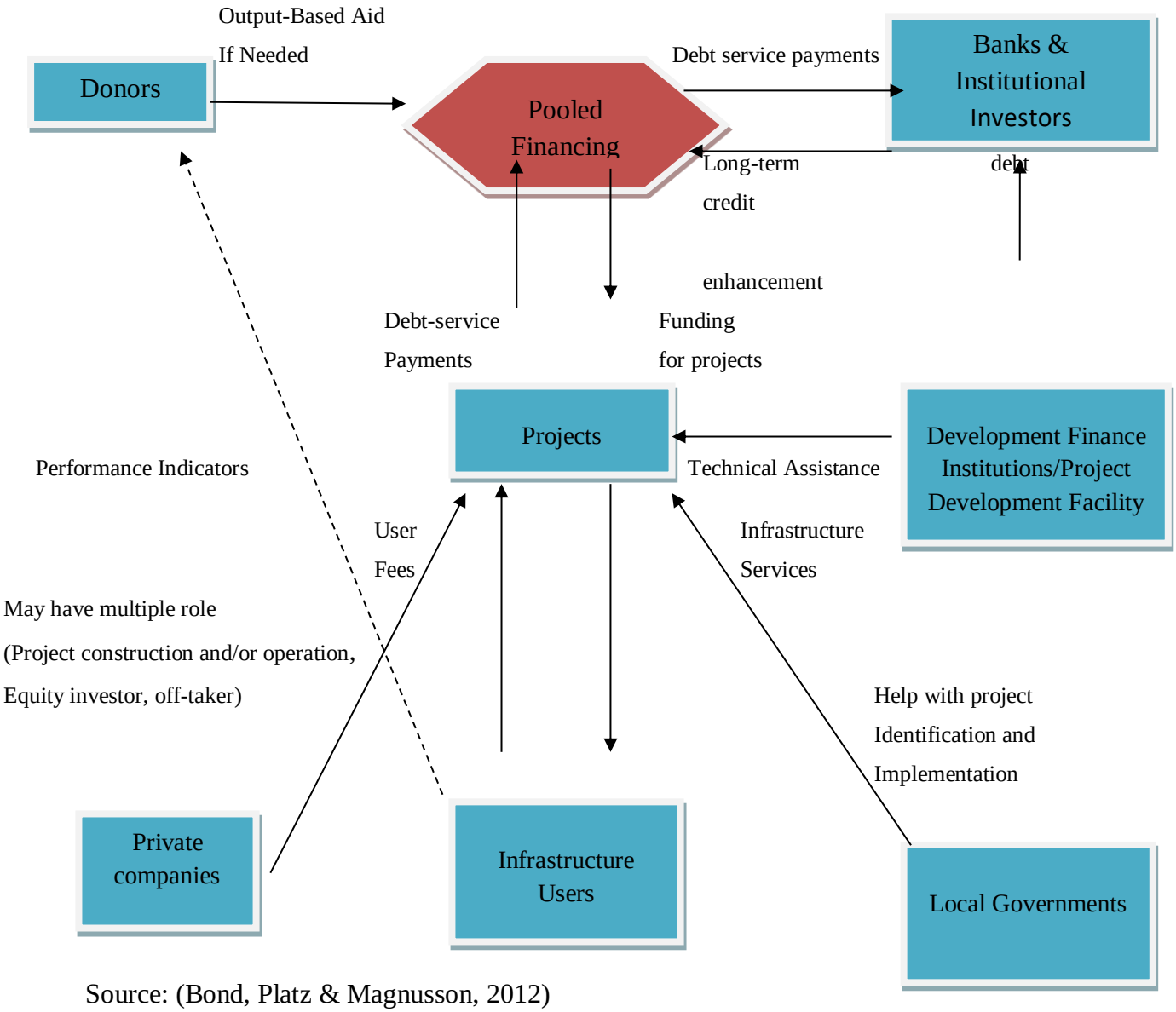
A financing instrument that has relatively unique features is technical assistance. One of the critical ingredients, even before other financing instruments are applied, is the existence of accurate data. One of the areas where accurate data is crucial is GDP growth data as a basis for market participants and investors. Inaccurate data could result in these institutions taking incorrect financing decisions. The importance of accurate GDP data was emphasised by Ketkar and Ratha (ed) (2009). Technical assistance from the international institutions could assist in overcoming or ameliorating the deficiencies that lead to inaccurate reporting of GDP data. Furthermore, Kingombe, Massa and te Velde (2011) confirmed extended use of technical assistance and advisory services that include project-related training, pre-investment studies and specific consultancy measures.

Romero (2014) acknowledged that there was little theoretical or empirical evidence available to support any particular instrument from a development perspective. He noted that some evaluation reports have challenged the way development finance institutions decide their investment strategies.

In dealing with another form of economic development that requires the application of a financing instrument was aptly described by Bond, Platz and Magnusson (2012 p.2) as “small scale infrastructure as the missing last mile, quite literally in many cases. While there is a need for more air- and seaports, railroad and highways, in developing

countries, these alone do not allow people and goods to reach their final destinations". Bond, Platz and Magnusson (2012) further asserted that local entrepreneurs and poor communities have a contribution to make in the form of skills, knowledge and willingness to shoulder risks, but this willingness is often not recognised by formal institutions. They depict a typical project finance structure as illustrated below:

Figure 2: Typical project finance structure



Source: (Bond, Platz & Magnusson, 2012)

2.4 Factors that affect selection of financing instrument

Financing instruments are affected by various circumstances, which range from internal to external factors. Barria and Roper (2004), however, interestingly argued that the differences in the external environment help explain differences in lending policies and attitudes. Therefore, various factors are taken into account in design and implementation of financing instruments, as the manner in which development finance institutions measure their success, according to Massa (2011), means that development finance institutions use a variety of assessments frameworks to evaluate their investments. These include IFC, financial performance, economic performance and private sector development.

Some of the factors, according to Massa (2011, p.2), used in measuring the impact of DFIs, as an example, the IFC in terms of its Development Outcome Tracking System (DOTS), established in 2005, are:

- stated objectives;
- financial performance (e.g. return on investment capital, project cost, net income); and
- economic performance (e.g. contributions to employment, taxes, subsidies received).

2.4.1 Objectives

Anwar (2006) noted that there is a growing evidence in political economy pointing to the fact that the international financial institutions' criteria for lending to developing countries are not only based on economic needs of these countries, but also on the bureaucratic and political interests of these institutions.

2.4.2 Environmental, social and governance (ESG)

The issue of ESG has gained in prominence over the past decade. Countries, organisations and agencies have scrambled to adopt ESG in line with best practice. The UN-backed Responsible Investment Index, which was launched in 2006, has attracted 900 signatories with 38 of these from South Africa. South Africa, in turn, amended Regulation 28 of the Pension Fund Act to include the fact that responsible investment is now added as part of the fiduciary duties when investing funds.

In general, ESG standards as summarised by Kingwood and Malleson (2013) are processes for analysing investments in line with ESG standards and risk categorisation. The ESG standards seek to ensure compliance with environmental, social, governance and all legal and regulatory requirements through maintenance of high standards of business integrity and implementation of effective human resources strategies and remuneration policies. The standards emphasise the observance of international best practices and standards in respect of environmental and social impacts with mitigation plans, where the negative impact is unavoidable, and improved transparent and accountable feedback.

Studies have, however, shown that the adoption of ESG in emerging markets −compared to developed markets − was uneven, with developing markets still lagging behind in areas of policies, governance and programmes relating to the topics of ethics, employees and environment (van Dijk, Griek & Jansen, 2012).

In line with international trends, a number of development finance institutions, such as the IFC, EBRD, AfDB and CDC, among others, have adopted ESG standards as part of their investment and funding policies (Massa, 2011). Interestingly, some of the DFIs such as the IFC and CDC have gone on to develop toolkits that have been adopted by a number of jurisdictions as their own standards. These toolkits emphasise that ESG in the context of responsible investment, where in processes take ESG factors into account alongside more traditional financial and business considerations, are part of the assessment and management of businesses.

While Sinclair and Yao (2011) wrote that a there was a growing awareness and importance of sustainable investments in tackling social and economic challenges in the Sub-Saharan region, the OECD Working Draft (2014) warned that the standards could act as an obstacle to accessing funding by developing countries, especially for African countries such Ghana, Senegal and Timor-L'este countries. These countries were selected on the basis of their access to development finance flows. Furthermore, these countries were considered to be either not highly dependent on aid or under-aided. Further, it was noted that the non-availability of information at country level could jeopardise the chances of developing countries to benefit from ESG initiatives.

2.4.3 Other factors

In a conference paper, Chakrabarty (2013, para 2) noted the issue of mission drift, where DFIs "….have oriented their policies towards a market-led economy by sacrificing the developmental role...". He stated that these issues were not only happening in India, but rather across the globe. This thus results in the notion that there are other factors that are affecting the choice of financing instruments used by DFIs.

Therefore, various factors are taken into account in the design and implementation of financing instruments because of the manner in which development finance institutions measure their success. According to Massa (2011), development finance institutions use a variety of assessments frameworks to evaluate their investments, which include for the IFC financial performance, economic performance and private sector development.

2.5 The BRICS Trade Bloc

2.5.1 BRICS economy

The BRICS economies are argued to be the most economically active growth countries in the world. Notwithstanding the generally above average growth experienced in these countries, they face challenges that put into question the sustainability of their economic development. The key challenges the bloc faces include unsustainable economic development models; the negative impact of lacking infrastructure (roads, electricity, healthcare centres, schools, etc.), the pressure of economic transformation and upgrading, and external strategic pressure and internal political uncertainty.

The key economic drivers for growth in the five BRICS countries are (still) low-cost labour, abundant mineral resources and few technological innovations. Russia mainly depends on its energy, military and heavy industries, while its services and financial sectors are underdeveloped. On the other hand, China is at the low end of the industry-chain structure, whilst South Africa, Brazil and India do not have a comprehensive industrial system and external dependence is prominent.

The BRICS countries have the advantage of either having huge populations (China and India), providing resource advantages or some industrial advantages that are important in the international division of labour. Comprehensive reform can promote rapid economic development. The BRICS countries are in need of concept regeneration, relevant and effective institutions and comprehensive reform.

The key statistics of the BRICS economies are shown in the table below:

	China	**Brazil**	**India**	**Russia**	**South Africa**
Population (mil)	1401.81	201	1,255.56	140.96	52.98
Life expectancy (yrs)	75.2	73.89yr	66.21	71.07	59.10
GDP ($ billion)	14,839.24	2,246.04	1,843.55	2,308.19	350.6
Unemployment rate	4.1%	5.4%	8.8%	6%	25.2%

The sheer numbers of the population of these countries, collectively make them a major force as a market that cannot be ignored. The high rates of unemployment, especially for South Africa, provide opportunities for job creation. The life expectancy of the countries is low compared to the developed world. This phenomenon presents opportunities for advancement in areas like health care. The low degrees of urbanization provide opportunities for infrastructure development, including housing as more people become urbanized.

2.5.2 Major DFIs in BRICS Bloc

The BRICS Development Bank, in its construction of financing instruments, will have to be cognisant of the fact that its members are already members of other development finance institutions, the major ones being:

1. Development Bank of Latin America (CAF)

CAF, of which Brazil is a member, has been operating for more than 40 years. Its objective is to support sustainable development and regional development within Latin America to make its economies more diversified, competitive and responsive to social needs.

2. Eurasia Development Bank (EDB)

Russia is a founding member of the EDB, which it established as a regional development bank with Republic of Kazakhstan in 2006 promote economic growth by its member states. The Bank currently has six member states, including Armenia, Belarus, Kyrgyzstan and Tajikistan.

3. Asia Development Bank (ADB)

Both India and China are members of the ADB, which was established in 1966. The main objectives are to foster economic growth and cooperation in the region of Asia and the Far East and to contribute to the acceleration of the process of economic development of the developing members in the region, collectively and individually.

4. African Development Bank (AfDB)

South Africa is a member of the AfDB, which was founded in 1964 and established to spur on sustainable economic development and social progress in its regional member countries.

Even though various BRICS counties are members of the above institutions, the BRICS Development Bank, unlike the above institutions, will not have members from any of the Western countries.

2.6 Progress towards establishment of the BRICS Development Bank

2.6.1 BRICS Development Bank

It is by now common knowledge that the original acronym, BRIC, was coined by Jim O'Neill, then of Goldman Sachs, in 2001, to refer to Brazil, Russia, India and China. The intention was not merely to develop an acronym, but the reason for grouping these countries together was that O'Neill was looking at conveying a message that much of the world's economic growth would soon come from Brazil, Russia, India and China instead of the "Old World".

According to Singh and Dube (2011), referring to a Goldman Sachs paper where the acronym was formed, they argued that the paper was developed as part of an economic modelling exercise to forecast global economic trends over the next half century. These authors maintained that another Goldman Sachs paper in 2003 already predicted that over the next 50 years, the BRIC economies could become a major force in the world economy.

2.6.2 Focus of BRICS Development Bank from a South African context

Sagasti, Bezanson and Prada (2004, p.37) emphasised the attributes of an effective set of financial arrangements in channelling resources to the growing diversity of developing countries. One of the attributes is, what they referred to as "adequacy". In their view, adequacy suggests a "fit between financial instruments and the needs of different types of developing countries". This attribute suggests that there should be a wide range of instruments "tailored to specific domestic situations and conditions...".

The National Development Plan of South Africa (2013) identifies a number of challenges for South Africa, nine to be exact, in its overview. This study looks at selected objectives of development finance institutions that have been identified and can assist in the alleviation of some of the challenges, especially the two with respect to unemployment and infrastructural deficits. In their first summit, BRICS countries called for an increased role in global financial institutions in emerging economies and developing nations, a view reiterated at the 5th summit of BRICS held in Durban, SA.

2.7 Conclusion

There is no unanimity in literature on the exact definition of development finance institutions, except for essential components such as the role government and development finance institutions should play in the economy. This restricted convergence of views has largely resulted in financing instruments being informed by these founding objectives, albeit, different circumstances have resulted in differences in instrument choices. In line with best practice of responsible investment, DFIs have adopted ESG factors as part of the key components in application of financing instruments. Literature confirms that there is an array of opportunistic factors, outside the original intended objectives that have influenced the design and application of financing instruments and this has caused mission drift. The chapter has reviewed the process of the establishment of the BRICS Development Bank and the priorities of South Africa in its vision towards the year 2030.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter focuses on the research methodology chosen for the study. It explains and justifies the research approach, research strategy, data collection procedures and methods employed to analyse the data.

3.1 Research Approach and Strategy

This study employs a qualitative research approach, which is described by Denzin and Lincoln (2000) as emphasising the qualities of entities that are not experimentally examined or measured in terms of quantity, amount, intensity or frequency. In concurrence with Denzin and Lincoln, Patton (2002) stated that the aim of qualitative research is to answer questions about the how or why of a phenomenon.

The exploratory research strategy seemed to be most appropriate for this study. The aim of exploratory studies is to establish the 'facts', to gather new data and to determine whether there are interesting patterns in the data (Mouton, 1996, p.103).

This study utilises the descriptive method of research, a method widely viewed as a fact-finding study that describes certain present conditions. This method is considered appropriate to this study since the study aims to review financing instruments currently used by DFIs. According to Creswell (1994), the descriptive method of research is to gather information about the present existing conditions.

3.2 Data Collection, Frequency and Choice of Data

This study uses documents as data. The use of documents for research is supported by Flick (2006). He argued that although records and documents produced through institutional activity are not produced for research purposes, the information they contain can be used for research. Documents can be understood to be standardised artefacts that take different formats, namely notes, case reports, contracts, statistics, annual reports and certificates (Wolff, 2004 in Fick, 2006).

In the present study, the documents used as data source cover the role of development finance institutions in the economy in general, but more specifically, the importance of the design of the financing instruments for them to contribute to economic growth and

to support the private sector. The identification of the objectives of setting up the development finance institutions, their support of the private sector and the analysis of the financing instruments is conducted on analysing chosen development finance institutions. This method follows an earlier study conducted Kingombe *et al* (2011), wherein reviewed and analysed existing materials and annual reports to assess the performance of DFIs.

The study uses secondary data as the primary source of information. The advantages of utilising secondary data include the author's ability to build on research work already done before; it enables the research to access large volumes of information and since the information is widely published, relies on being audited and has not been produced specifically for the research, it excludes the potential of personal bias at source.

The data source is comprised of 2010-2013 annual reports and literature related to the DFIs under study. The 2013 financial statements were used the major reference point, as they were the latest audited available information, making allowance for the differences in the DFIs' financial year end. A longer data set was not used due to two key reasons namely time constraints to allow the study of extended period and difficulties in accessing older annual reports. In addition, by using the latest annual reports, which also happen to be closest to the establishment of BRICS Bank, it provides the most appropriate current lessons. The most recent verifiable data takes into account changes in the economic landscape post the 2008/9 financial crisis. In theory, financial instruments of established institutions are not expected to evolve or change dramatically over a short time. The lack of breadth is compensated through a large sample size.

In order to address the data scope limitation and the fact that these multilateral organizations produce annual reports for their management and/or boards, and as such can omit some key information, the research supplemented the review of documents with a number of telephone enquiries and face-to-face interviews relating to these issues.

According to Kahn and Cannell (1957), an interview takes place when two or more people are engaged in a discussion for a purpose. Interviews are commonly categorised

into three groups namely: structured interview, semi-structured interview, and in-depth interview (Saunders *et al*. 2009). Structured interviews happen when an interviewer reads out predetermined set of questions to respondents. Semi-structured interviews cover a list of themes but have flexibility to omit a theme or more depending on the circumstances in the interviews. In in-depth interviews the researcher does not have predetermined questions. It is informal and the interviewee is free to talk within the research topic area. This study utilized in-depth interviews.

3.3 Sampling

The population for this study is development banks that operate in the developing countries with specific emphasis on the development finance institutions that operate in the BRICS countries and those that have multi-country shareholding.

Due to time constraints, it was not possible to cover the full range of DFIs in detail. The study thus zeroed on development finance institutions where the five countries within the BRICS group, being Brazil, Russia, India, China and South Africa, are members. The selection, therefore, includes major multilateral and regional development finance institutions. There is at least one South African development finance institution included in the study. In total, there are thirteen development finance institutions that are the subject of this study.

According to Nelson (2013), the financing commitments for the 2012/13 financial years of the ten top multilateral development finance institutions were US$ 91.97 billion. Out of these ten institutions, eight are included in this study and their disbursements for this period are US$ 75.35 billion, thus representing 81.93% of the total disbursements.

In order to achieve consistency, the author has studied the annual reports for the 2013 financial year for all the thirteen development finance institutions that are the subject of this study. The study of these annual reports has been complemented by other published information, where the information in the annual reports does not provide sufficient answers or clarity of the issues; however, the significant component of the information is extracted from the annual reports. An identification of the strategic objectives has been conducted. An analysis of the financing models has also conducted.

Sampling method

As this study is conducted by means of a qualitative approach, the purposive sampling method is used. There seems to be consensus on the view that the purposive sampling method is based on the assumption that the researcher wants to discover, understand and gain insight and therefore must select a sample from which the most can be learned (MacMillan & Schumacher, 2006; Tashakkor & Teddlie, 2003; Kuzzel, 1992). The sample is based on location and contribution of funds invested in developing economies.

The development banks reviewed are the African Development Bank, Common Wealth Development Bank, Development Bank of Southern Africa, Asian Development Bank, Inter-America Development Bank, Development Bank of Latin America, Asian Development Bank, Eurasian Development Bank, European Investment Bank, International Finance Corporation, European Bank for Reconstruction and Development, and the French Agency for Development.

In the case of Germany, KfW IPEX-BANK GmbH, which is part of the KfW group, also owned by the Federal Republic of Germany, has been selected instead of the DEG. The reasons for this selection is the size of KfW IPEX-BANK GmbH − whilst they both fit one of the definitions of a Development Finance Institution − as measured by its financing activities in the 2013 reporting year, the KfW IPEX-Bank GmbH had a balance of loans and advancements to customers of about €20 billion (excluding the balance of "loans and advances to banks" of about €848 million) as against the KfW DEG, which had for the same 2013 reporting year, a balance of "Financial fixed assets" of only about €4 billion. The other reason for choosing the KfW IPEX-BANK GmbH introduces the use of financing instruments for imports and exports by a development finance institution and this could provide lessons for the BRICS Development Bank.

The lists of Development Finance Institutions that form the sample are listed in Appendix A.

3.4 Data Analysis

Despite a growing literature on impact assessment tools such as the IFC's Development Outcome Tracking System (DOTS), EBRD's Transition Impact Monitoring System

(TIMS) DEG's Corporate Policy Project Rating (GPR), Inter-American Development Bank's Development Effectiveness Framework (DEF) and other bilateral DFIs' specific fund assessment methodologies, there is no research on the assessment methodologies for effectiveness and impact of financing instruments. (Kingombe et al 2011)

This study thus follows the approach used by the Canadian International Development Agency in its assessment of the Development Effectiveness Review of the Asian Development Bank (ADB) 2006-2010. In the study, they noted that where there is no common agreed definition or framework; the methodology must focus on some of the essential characteristics of developmentally effective multilateral organization programming. As such this study will focus on some of the characteristics of development institutions financing instruments formulation factors, as described below:

Factor	Justification	Reference
Stated objectives	DFIs are political entities which serve interests of their shareholders (governments)	Kingombe *et al* (2011)
Financing objectives	While DFIs have specific mandates at creation, they objectives tend to change i.e. mission drift due to agency problems.	Romeo (2014); Chakrabarty (2013); Cameron (1953); De Aghion, 1999
ESG Factors	DFIs also exist to promote standards	Amsden (2001) Kingombe *et al (2011)*
Financial performance (ROI/ ROE)	Over and above political interests, DFIs also pursue financial objective. As such products are formulated with return in mind	Massa (2011) Kingombe *et al* (2011)
Capitalisation & funding structure	The nature and tenure of products are also a reflection of funding structure. Short term funding will drive short tenured instruments and vice versa. It will also influence ticket sizes	Gössinger A. & Raza W. (2011) Massa (2011) Kingombe *et al* (2011)
Portfolio Mix	Reveals the product concentration gaps	Gössinger A. & Raza W. (2011)
Financing instruments	A new DFI also perform complimentary roles with other existing DFIs. Instrument gap analysis will instruments are in greatest unmet demand, and what is the comparative advantage in providing these instruments	Kingombe *et al* (2011) Gössinger A. & Raza W. (2011)
Sectoral distribution	Analysis of sectoral distribution will help in identification of gaps in which the BRICS Bank can fulfil.	Kingombe *et al* (2011) Gössinger A. & Raza W. (2011)

3.5 Research Reliability and Validity

Messick (1990, p.3) defined validity as "...an integrated evaluative judgement of the degree to which empirical evidence and theoretical rationale support the adequacy and appropriateness of inferences and actions based on test scores and other modes of assessment". According to Golafshani (2003, p.599), quoting Joppe (2000), "Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are". In order to enhance the external validity, which "is the process of generalisation, and whether the results obtained from a small sample group...can be extended to make predictions about the entire population" (Campbell & Stanley, 1966). Accordingly, the sample size, based on capital employed is large enough and fully representative.

The sample size has been made far larger than most cases to cater for the limited validation processes and to reduce error probability. Biau, Kernels and Pocher (2008) stated that sample size should be considered because it allows the researcher to control the risk of reporting a false-negative finding or to estimate the precision his or her experiment will yield. The issue of the size of the sample was dealt with by Altman (1991), when he alluded to the fact that the size of the sample studied is a major determinant of the risk of reporting false-negative findings. The sample size has been considered as important for planning and interpreting (Altman, 1991).

Reliability

According to MacMillan and Schumacher (2006), reliability refers to the extent to which the results are similar over different forms of the same instrument or occasions of data collection. It was the view of Blaxter, Hughes and Tight (2001) that the concept of reliability has to do with the situation where, if another researcher were to look into the same questions in the same setting, they would come up with essentially the same results.

This study's sample has been drawn from the annual reports of development finance institutions that were subjected to an audit by external independent auditors. The information contained in the annual reports was not developed, packaged and made to suite this study, as it is generally available and accessible published information.

The author also did not seek interpretation of the contents of the annual report from anybody working for or based at any of these development finance institutions. The founding statements were obtained from the official websites of the DFIs without any interpretation of the contents being provided by any of these institutions.

The key parties to the annual reports, being the external auditors and the board of directors, operate within ethical and legal constraints. The external auditors are bound by their code of ethics, whilst the board of directors are bound by their fiduciary duties and responsibilities contained in various legislations.

3.6 Limitations

There are limitations to this study. Although the sample size (by value) is expanded to enhance validity, the fact that these development finance institutions have been established for different national and regional objectives, could affect the applicability of the results of this study when used in a general sense. Secondary data, which is the primary data source in this study, has inherent limitations, which include the fact that the data is not collected for the study to answer specific research questions, and a lack of a standardised manner of presenting the information. In addition, descriptive research only describes observations or data collated without demonstrating or suggesting causal relationships or correlations.

3.7 Conclusion

This chapter on research methodology illustrates the existing body of knowledge to develop the theoretical approach, the methodology and the process followed in analysing the data. It also deals with issues of validity and reliability of the sample.

The next chapter, Chapter 4, represents the results of the study. Chapter 5 will discuss the findings, draws conclusions based on examination of the literature reviews and the responses, and finally makes recommendations for further research.

CHAPTER FOUR: RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.0 Introduction

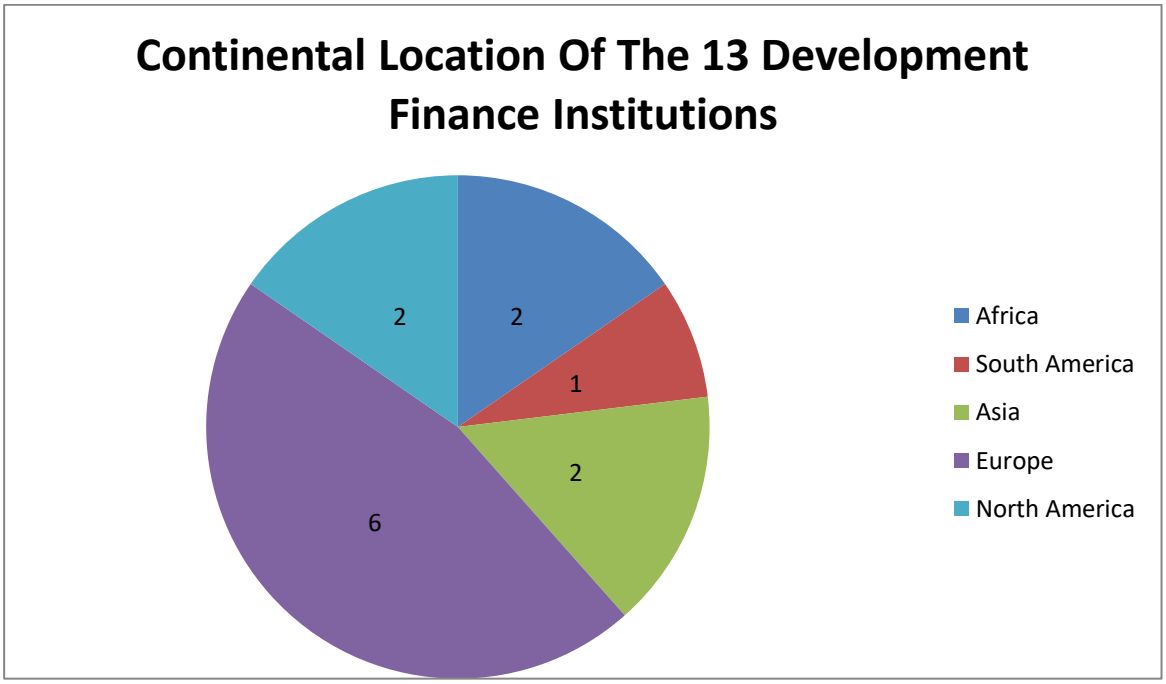
This chapter presents the research findings, analysis of the research findings to provide the context of the findings. It also discusses the implications of the research findings. The principal research instrument used consists review of documents (annual reports for period 2010/3) with particular emphasis of the 2013 Annual Reports which were complemented by in-depth interviews. Data analysis is done using the assessment factors identified in Chapter 3.

4.1 Demographics

4.1.1 Development Finance Institutions

The continental location of the thirteen development finance institutions that are subject of this study are Africa (two); South America (one), Asia (two), Europe (six) and North America (two). A more detailed description of each DFI is shown in Appendix B. A summary schedule with some pertinent information is attached as Appendix A. The development finance institutions studied are eight multilateral development finance institutions, two regional development banks and three bilateral finance institutions.

Figure 3: Geographical Location of DFIs



Source: official website.

The graph above demonstrates that the majority of the development finance institutions are located in the developed economies, being Europe and North America. This location could be expected because these economies have possessed the resources to fund these institutions.

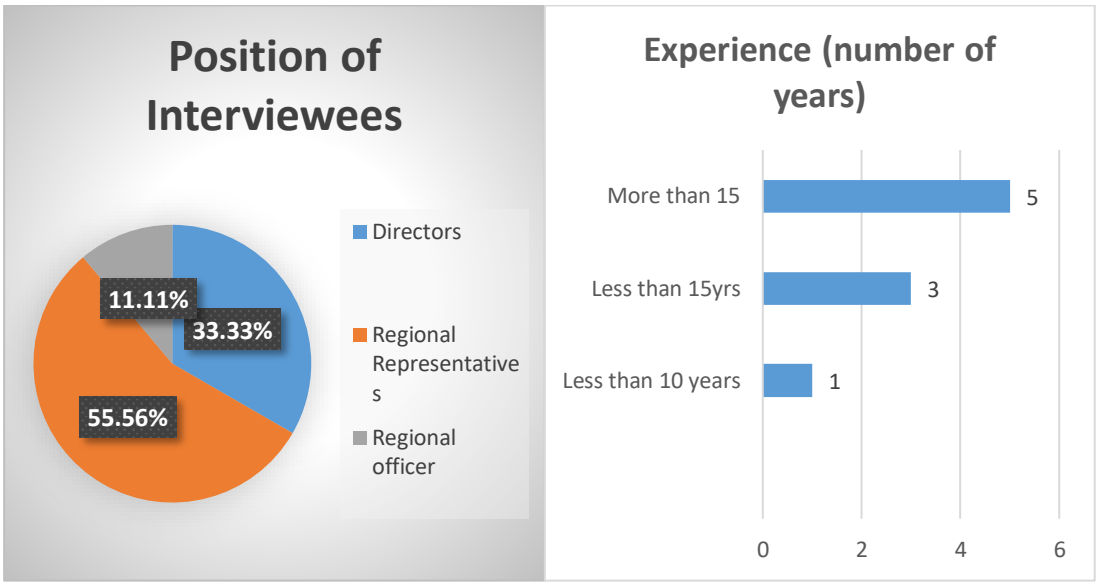
In a study by Nelson (2013), he analysed ten development finance institutions; eight of them are part of this study, and the eight constituted about 82% of the DFI disbursements in the developing world.

4.1.2 Interviews

In complimenting the secondary data, the study conduct in-depth interviews of the management of the 9 out of the 13 selected DFIs, representing an interview success rate of 69.23%. The 4 institutions whose executives were not interviewed are equally distributed between Asia and Europe. The purpose of the interviews were to get information on issues that were not sufficiently covered in the annual reports.

Of the 9 interviews done, 3 (33.33%) were with executive directors, while 5 (55.55%) were with their regional representatives and 1 (11.11%) was a regional officer indicated in Figure 4 below:

Figure 4: Geographical Location of DFIs



Source: Primary Data

4.2 Results of Study

4.2.1 Overview.

The following table summarizes the findings of the review of the thirteen (13) DFIs compared along the several dimensions noted in Chapter 3. As highlighted the analysis is based on a combination of analysis of documents and expert interviews.

The table below shows summary of study findings.

Table 2: Summary of Study Findings

DFI	Founding Objectives- as per Establishment documentation	Financing objectives	Financing Instruments & Portfolio Mix	Financial Effects ROE D/E Ratio Times Interest Earned (TIE)	Capital Structure (Amount in billions)
AFDB	• sustainable economic development • social progress of its regional members	• Infrastructure Development. • Regional Integration • Private sector Support • Governance and accountability • Food security • Technological and Skills Advancement • Millennium Development Goals.	•Debt: 66% • Equity : 2% • Grant Funding 15% • Guarantees: 10% • Debt service reduction: 1% • Special Funds: 6%	ROE: 1.25% D/E: 11.57:1 TIE: 1.56 times	Debt:US$88.381 Equity:US$7.638 Retained Earnings: $ 4.404 **Total: US$ 100.423 Billion**
CDC	• to boost economic growth by investing in businesses in developing countries	• Private sector support (Building businesses) • Job Creation. • Socio-economic Development.	• Debt: 36% • Equity: 13% • Private equity: 51%	ROE: 3.30% D/E: 0:1 (100% equity) TIE: no debt	Equity: US$ 3.895 Retained Earnings:$ 0.161 **Total: US$ 4.056 Billion**
DBSA	• infrastructure development	• Socio- economic Development. • Human Resource Development • Infrastructure.	• Debt: 79% • Equity: 5% • Grant Funding: 1% • Guarantees: 2% • PPP: 13%	ROE: 3.95% D/E: 6.57:1 TIE: 0.66 times	Debt: $3.547 Equity: $0.541 Retained Earnings: $ 1.051 **Total: US$ 5.139 Billion**
IADB	• acceleration of the process of economic and social development of the regional	• Socio-economic Development. • Poverty Alleviation.	• Debt: 28% • Equity: 43% • Grant Funding: 3%	ROE: 5.55%	Debt: $ 73.457 Billion Equity: $ 5.881 Billion

	developing member countries, individually and	• Environmental Sustainability/Climate. • Promote Social Equality. • Regional Integration	• Guarantees: 15% • Loan Reallocation: 11%	D/E: 12.49:1 TIE: 4.26 times	Retained Earnings: $ 17.661 **Total: US$ 115.868 Billion**
CAF	• to promote sustainable development • to promote regional integration, by providing multiple financial services to clients in the public and private sectors of its Shareholder Countries.	• Robust and sustainable growth. • Achieve genuine inclusion. • Promote Social equality.	• Debt: 97% • Equity: 2% • Guarantees: 1%	ROE: 2.65% D/E: 2.51:1 TIE: 1.70 times	Debt: $ 19.602 Equity: $ 7.610 Retained Earnings: $ 0.207 **Total: US$ 27.418 Billion**
ADB	• foster economic growth and co-operation in the region of Asia and the Far East • to contribute to the acceleration of the process of economic development of the developing member countries in the region	• Poverty alleviation. • Infrastructure Development • Regional Integration • Educational Development • Environmental Protection • Finance Sector Development	• Debt: 51% • Equity: 6% • Grant Funding: 8% • Guarantees: 7% • PPP: 26% • Special Funds: 2	ROE: 3.30% D/E: 21.35:1 TIE: 2.42 times	Debt: $ 98.730 Equity: $ 4.625 Retained Earnings: $ 12.513 **Total: US$ 115.868 Billion**
EDB	• to contribute to the development and growth of market economy in the member states • to promote trade and economic integration among them by engaging in investment activities.	• Strengthen the development of the market economy. • Environmental Protection • Enhance trade. • Enhance economic integration in member countries.	• Debt: 62% • Equity: 27% • PPP: 11%	ROE: 4.44% D/E: 1.84:1 TIE: 0.54 times	Debt: $ 2.962 Equity: $1.614 Retained Earnings: $ 0.018 **Total: US$ 4.594 Billion**
EIB	• to contribute to the balanced and steady development of the common market by financing Investment projects on a non-profit-making basis. • to contributes to economic integration • the strengthening of economic and social cohesion	• Further EU policy Objectives • Infrastructure Development • Environmental Protection • Access to Finance • Invest in sustainable investment projects.	• Debt: 70% • Equity: 10% • PPP: 20%	ROE: 4.34% D/E: 20.93:1 TIE: 1.15 times	Debt: $ 624.884 Equity: $ 29.849 Retained Earnings: $ 49.850 **Total: US$ 77.525 Billion**

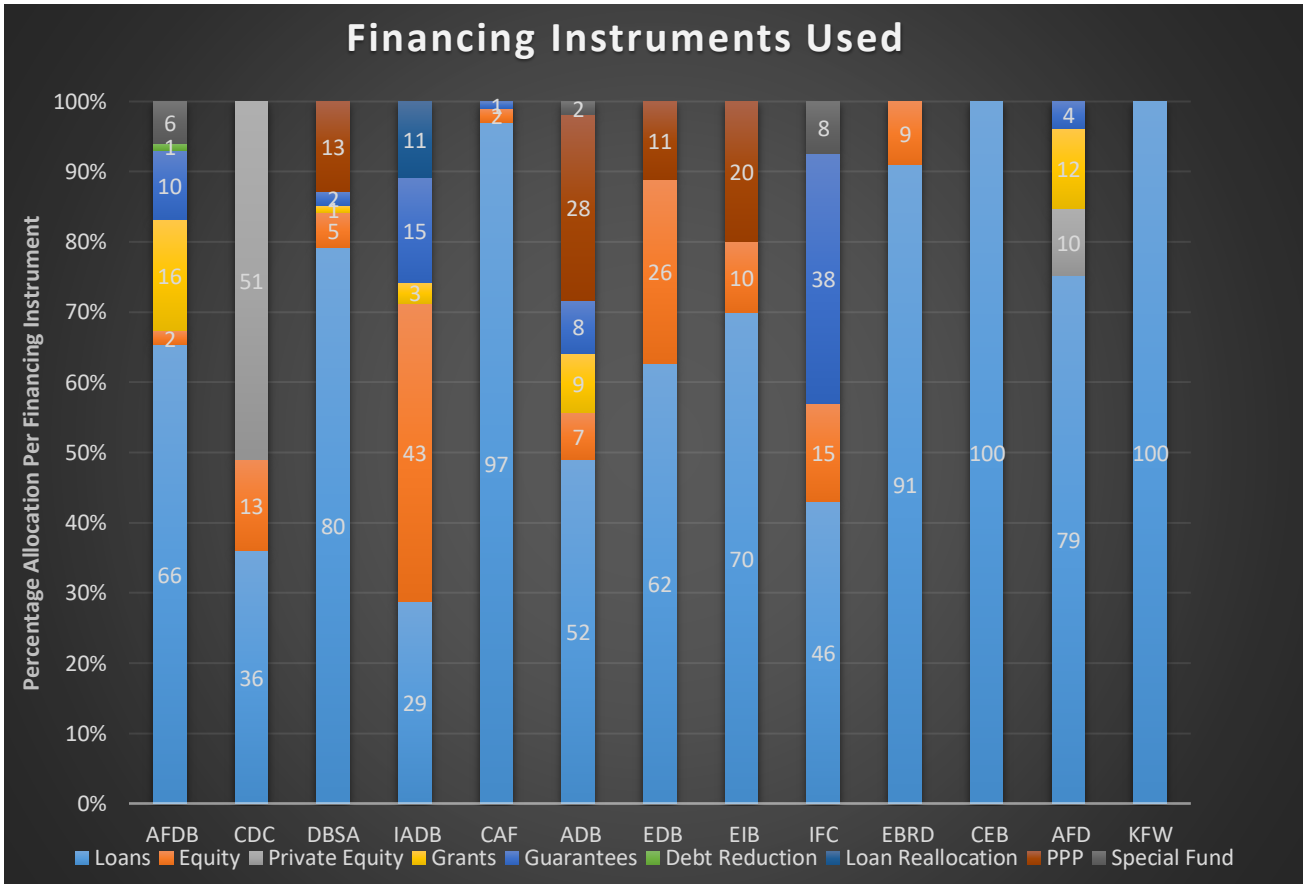
	• The implementation of development cooperation operations.				
IFC	• to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas	• Poverty alleviation. • Socio-economic Development.	• Debt: 44% • Equity: 14% • Guarantees: 35% • Special Funds: 7%	ROE: 4.57% D/E: 19.81:1 TIE: 5.63 times	Debt: $ 55.990 Equity: $ 2.822 Retained Earnings: $ 18.713 **Total: $58.81 billion**
EBRD	• to assist only those countries that are committed to and applying the principles of multi-party democracy	• Private sector support • Democracy and Free market transitioning countries.	• Debt: 91% • Equity: 9%	ROE: 6.80% D/E: 5.50:1 TIE: 4.66 times	Debt: $ 46.880 Equity: $ 8.531 Retained Earnings: $ 11.931 **Total: US$ 67.342 Billion**
CEB	• to help in solving the social problems with which European countries are or may be faced as a result of the presence of refugees, persons or migrants consequent upon movements of refugees or other forced movements of populations and as a result of the presence of victims of natural or ecological disasters • contribute to the realisation of investment projects approved by a which enable jobs to be created in disadvantaged regions, people in low income groups to be housed or social infrastructure to be created.	• Disaster relief for refugees in Europe- victims of natural or ecological disasters • Infrastructure Development • Social Integration • Environmental Protection • Private Sector Support	• Debt: 100%	ROE: 4.52% D/E: 38.99:1 TIE: 3.35 times	Debt: $ 30.296 Equity: $ 0.777 Retained Earnings: $ 2.607 **Total: US$ 33.680 Billion**
AFD	• to finance development according to France's Overseas	• poverty alleviation • Job creation	• Debt: 76% • Private Equity: 9%	ROE: 4.01%	Debt: $ 33.785

	Development Assistance policies which are: • promoting peace, stability, human rights and gender equality • equity, social justice and human development • sustainable, job rich economic development • protecting the environment and global public goods	• promote social equality • Combat climate change/ Environmental sustainability • Better regulated Globalisation • Private sector support (Farmers and small business people)	• Grant Funding: 11% • Guarantees: 4%	D/E: 11.03:1 TIE: 1.90 times	Equity: $ 3.061 Retained Earnings: $ 0.128 **Total: US$ 32.238 Billion**
KFW	• promotional tasks, particularly financings, pursuant to a state mandate providing financing for the seed and start up phases of businesses as well as other financings with the goal of substantially improving the equity base of German small and medium sized enterprises	• Support German and European exporters (Globalisation) • Social development • Environmental Protection	Debt: 100%	ROE: 2.66% D/E: 9.37:1 TIE: 1.26 times	Debt: $ 27.849 Equity: $ 2.967 Retained Earnings: $ 1.422 **Total: US$ 32.238 Billion**

4.2.2 Financing instruments used and the Portfolio Mix….

In this section of the study, we seek to understand the financing instruments used by the various development finance institutions. This is important to understand fully the extent of the financing instruments availability, use and instrument gap. The graph below demonstrates the extent to which each development finance institution used different financing instruments during the 2013 reporting year.

Figure 5: Geographical Location of DFIs



Source: Annual Reports

The study revealed that DFIs in BRICS economies largely utilise traditional financing instruments in particular loan financing. This finding concurs with earlier research by Kingombe, Massa & te Velde, (2011) where they noted that majority of committed portfolio of Development Finance Institutions is in loans.

This high usage of loans is to be expected considering that Romero & Van de Poel, (2014) rated loan financing as having a lower risk and more stable than equity in relation to changes in ownership.

Whilst equity finance is slowly gaining prominence, the magnitude of its use is still limited. The study revealed that most of the development finance institutions utilise it. The extent of its use by each DFI is, however, less than loan finance, except for one IADB, a North American-based DFI that is a significant user of equity finance. 43% of the funds disbursed by IADB was through equity instruments. This less extensive use of equity finance is contrary to the view expressed by Kingombe, Massa and te Velde (2011), who stated that equity finance is extensively used, similar to loan finance. The fact that this study shows that a great number of DFIs (although less than loan finance) use equity finance is in line with the acknowledgement by Kwakkenbos and Romero (2013) that there is a rapid rise in the use of equity instruments.

The study revealed a limited use of innovative products such as project finance, public and private partnerships by DFIs operating in BRICS economies. This is inconsistent with theory that postulates the rising use of these instruments and their effectiveness in dealing with most of the emerging and developing economies needs. The limited use of PPPs could be because of dangers of moral hazard and adverse selection which De Clerck Demeulemeester & Herroelen (2012 p. 247) warn that they are harder to detect. The limited use of project finance, however, concurs with a study conducted by Gatti (2008) which indicated a negative compound annual growth rate of 10% between 2003 and 2006 on project finance initiatives.

In addition, the study noted that development finance institutions either do not use concessionary financing or it is not significant enough to report. The effectiveness of concessionary financing as a contributor to economic development is significant. The fact that its use by DFIs is not always clearly pronounced is a matter that requires attention.

The research revealed that DFIs are increasingly using guarantees as a financing instrument. Half of the DFIs studies used guarantees as a financing instrument. This finding concurs with the observation by Ergungor (2001) and Kingombe, Massa & te Velde (2011) when they noted the increase in the use of guarantees. The use of guarantees as observed in this study could be encouraged by the observation of Ergungor (2001) and Kingombe, Massa, & te Velde, (2011) that guarantees aid private sector to access funding from the conventional markets.

Private equity as a financing instrument was heavily used by one European-based institution, specifically a United Kingdom-based DFI, with the majority of DFIs included in the study not using it at all. This limited use of private equity as a financing instrument is to be expected, as it did not feature in the list of financing instruments considered by Romero and Van de Poel (2014).

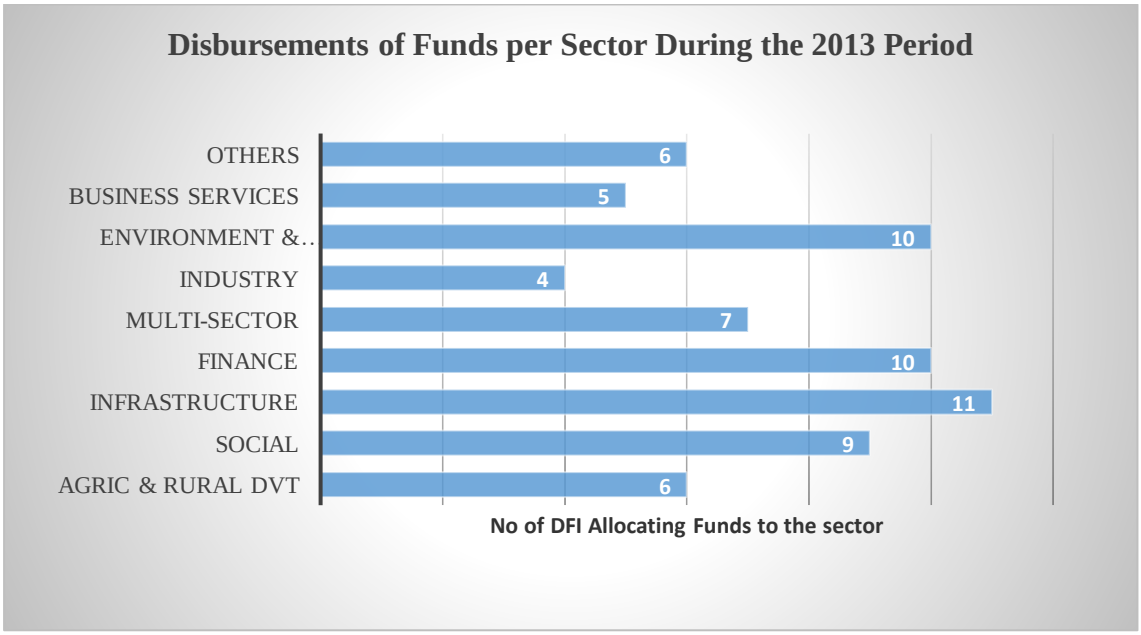
In addition, DFIs are increasingly utilizing technical assistance as a financing instrument. The African Development Bank depicted the highest amount of technical assistance used. This is to be expected, considering that the application of technical assistance is sometimes used to assist in the development of bankable project documentation. This finding is consistent with UNESCO (2010) who noted that of the ten countries with the lowest literacy rate, nine are in Africa.

The interviews noted that while non-African based DFIs were also providing technical assistance, their levels were low as their shareholders were not concerned about them driving such agendas, as those economies had capacity building organisations that dealt with such issues.

Sectoral Distribution…

In the analysis of disbursements by the DFIs, the author sought to understand sectoral over or under provisioning with a view of establishing the gaps. In addition, the sectoral funding was reconciled for alignment with the strategic objectives of the DFIs. The graph below provides an analysis of the various sectors financed by the DFIs.

Figure 6: Disbursements of funds per sector



The study noted that 84.61% (11) of the DFIs studied had disbursements aimed at infrastructure funding as part of their key stated objectives. This is consistent with theory that states that infrastructure development is a key catalyst of economic growth, Velde and Warner (2011). The increasing funding of infrastructure is consistent with the requirements of developing and emerging economies which are currently constructing roads, water and electricity. It is however, worth noting that whilst only five development finance institutions state in their annual report that infrastructure development as a financing objective, against the eleven who disbursed funds.

Experts interviewed noted that while they try to align all their products to their financing objectives, their products were also demand induced. They highlighted the increasing requirement of infrastructure funding by emerging economies and government support for such activities. It was highlighted that governments who are the major shareholders are also driving the increasing funding to infrastructure. Most of the interviewees also noted that by investing in infrastructure they will be performing catalystic role, in promoting private sector investments into developing and emerging economies. Griffith-Jones and Ocampo (2002).

The next funded sectors were noted to be Financial Services and Environment & Energy, which 11 out of 13 DFIs funded. The experts noted that in order to reduce their exposure to political and other risks, among other monitoring costs in the developing and emerging economies, DFIs were increasingly using financial institutions as intermediaries. In addition, they noted that this role was also being pursued with a view of promoting local financial markets.

The study noted limited funding to business services and industry. This is inconsistent with expectation that DFIs should be funding private sector. The interviewees noted governance challenges, the size of funding needed by private sector companies as one the reasons behind the low levels of concentration. They also highlighted that the sector were catered for under their funding to financial institutions.

4.2.3 Factors that influence the development of financing instruments

Founding Objectives…

The research noted that there is a growing divergence between the founding objectives of the DFIs and their financing objectives. This points to the issue of mission drift as explained by Romeo (2014), who noted the issue of mission drift by DFIs. Our study does not support Chakrabarty (2013) who, defended the issue of mission drift in Development Finance Institutions as more of a perception than reality.

In addition, the issue of mission drift is consistent with finance literature on the agency theory, which states that management as agents of principals can push their own agent in their day to day running of businesses. The mission drift is then manifest in the deployment of products that are inconsistent with the original objectives

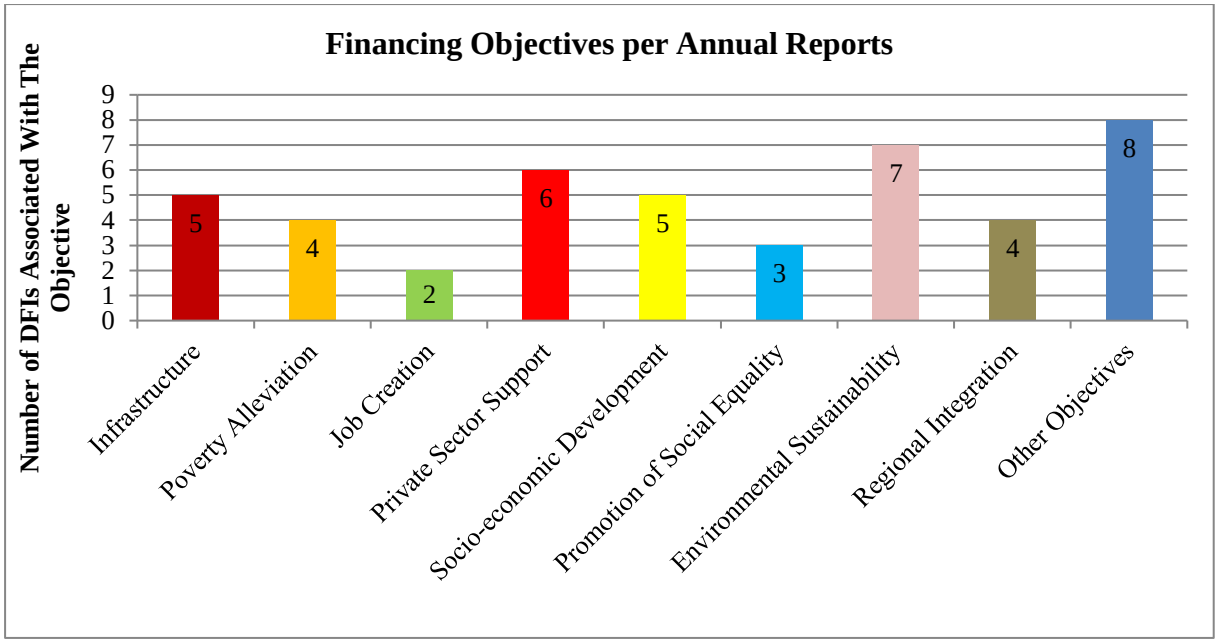
The majority of the development finance institutions had, as part of their founding objective, economic development, including regional co-operation. The nature of economic development and regional integration project are long-term. This observation is in line with de Aghion (1998), who described development banks as being concerned primarily with the provision of long-term capital to industry.

DFIS originating from Europe and North America place, as part of the reason for their establishment, also expressed an emphasis on the support of the private sector. This observation concurs with the views expressed by Dalberg Global Development Advisors (2010), who concluded that there is a direct relationship between the private sector and economic development.

None of the development finance institutions had stated poverty alleviation or reduction as a founding objective. This is contrary to the role expected by the United Nations Monterrey Consensus (2002) that expected the private sector to act as partners together with government in poverty reduction.

The findings analysed from the table above are shown in the chart below. The chart provides a clearer picture of the extent of adoption of the various financing instruments by the DFIs.

Figure 7: Financial Objectives



The results indicate that five of the development institutions had infrastructure as the identified area of financing support. This is in contrast to the fact that only one DFI had specifically stated infrastructure development or funding in its founding objectives. This lack of alignment could arise because some of the components of infrastructure such as telecommunications were not regarded as being of significance at the founding of most of the DFIs. This finding concurs with findings from a study by Gatti (2008) where he noted funding for energy and power grew by an average of 23.4% for the same period. This growth is an indication of the growing recognition of the importance of this area of infrastructure.

Six of the development finance institutions indicated that private sector support as an area of consideration in their financing activities. This is more or less in line with the number of DFIs who have private sector support as one of their founding stated objectives. The role of the private sector has been recognised by Dalberg Glabal Advisors (2010), who view private investment as being more closely associated with economic growth than public sector investment in developing countries.

The analysis shows that as many as four of the development finance institutions state in their annual reports that poverty alleviation was one of their objectives. This is in contrast to the fact that none of the development finance institutions included in this study had specifically stated poverty alleviation as one of their founding objectives.

This is not surprising as poverty alleviation programmes have largely been channelled through grants and donations. This is evidenced by the fact that even the United Nations Monterrey Consensus (2002) started fairly recently to galvanise support also from the private sector for their poverty alleviation agenda.

In interviews conducted, all the interviewees conceded to the fact of mission drift noting that founding objectives are largely intentions of founding governments or shareholders whose focus usually tend to be more on projects of national or regional interest. They noted that in reality, in coming up and implementing their financing objectives DFI management consider other practicalities such as the issues of contribution of by borrowers, availability of co-funding or lack of co-funding interest on projects.

ESG Standards…

In line with global trends on responsible financing and investing, the research seeks to establish the extent to which DFIs consider ESG factors in their financing structures. The study noted that the Development Finance Institutions reviewed have not been proponents of the implementation of ESG standards in economies in which they operate. This finding is inconsistent with Massa (2011) who posited that a number of DFIs consider ESG in their evaluation of success of their financing instruments.

Notwithstanding the unsystematic application of ESG standards by DFIs, the study noted that some the DFIs considered social issues while a small proportion mention environmental issues in their objectives and even fewer mention governance in their objectives. This lack of emphasis on environmental matters is of more concern given the fact that developing and emerging economies are notorious for governance and environment misgivings. Richardson (2008) warned about the general structure of financial markets, which do not motivate investors to act for the public good. He further emphasised the importance of sustainability in a finite biosphere existing in a world where the capital markets seek to attain infinite economic growth.

Financial motive…

While traditional theory of finance postulates that the financing instruments (application of funds) are partly a reflection of the financial institution's funding structure, the research findings are inconclusive on the matter. While on a majority of instruments, their gearing ratio influenced their inclination to

either debt or equity, notable exceptions were noted for IADB, which irrespective of being largely debt funded, had a large proportion of its instruments being equity. In addition, CAF, CEB and KWF's portfolio were extremely skewed to debt funding irrespective of the fact that they had sizeable levels of equity. The study also noted that some DFIs such as CDC were wholly equity financed though it also offered debt financing to its clients.

In addition, the debt equity ratios indicate a high level of debt with the exception of CDC. The norm in general is a 1:1 debt to equity which lenders are comfortable with. One of the reasons why lenders would be tolerant of higher debt equity ratios is because DFIs are government owned institutions and it is unlikely that governments would let them fold if they are no longer affording to service the debt.

Interviewees indicated that most DFIs, due to their high levels of private sector debt funding, were largely also using debt as a financing instrument, as their funders were more concerned by financial returns rather than social returns.

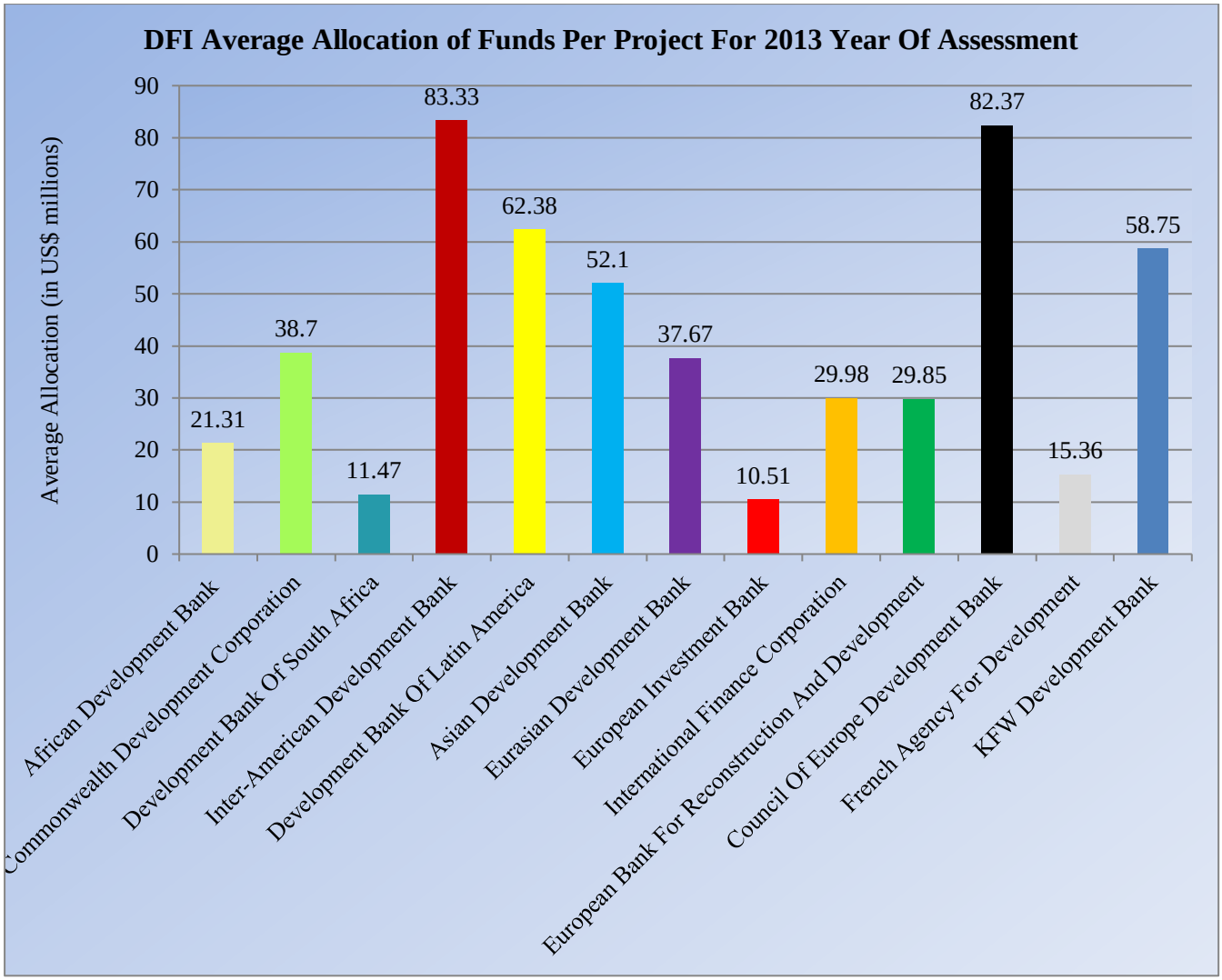
Return on Equity…

The study revealed low returns for most of the DFIs, as indicated by lower returns on equity, with the exception of EBRD and IDB. This finding is consistent with the one of the founding objectives of the DFIs of promoting development. The interviews conduct revealed that developmental funding was largely long term in nature and had long payback periods which affects the return in the short to medium term.

Average size of financing per project of DFIs…

The study also reviewed the average size of financing per project per development finance institution. The graph below depicts the average financing per project derived as total disbursements divided by number of projects.

Figure 8: **Average Allocation per Project (2013)**



Source: Annual Reports

The study revealed that the average project size of the DFIs was $41.06 million. It was noted that only four institutions namely KFW, CEDB, AsDB, DBLA and IADB had average funding sizes more than the average. This review and interview findings revealed that the DFIs also considered the size of average funding required in designing financing instruments. It was noted that some projects or sectors were not being funded because their funding requests are either too small or huge for the DFIs' risk appetite. In addition, some sizes were too big to exhaust country limits.

4.2.4 Conclusion

This chapter presented results of the study and an analysis of the findings. The findings of the study indicated issues of mission drift, instrument gap on project finance and public-private partnerships and sectoral gaps for business services and industry. In addition, it was noted that the DFIs were not very

active in pursuing their standard setting objectives, in as far as ESG issues were concerned. The following chapter presents conclusions and recommendations of the study.

CHAPTER FIVE: RESEARCH CONCLUSIONS

5.1 Research Conclusion

Financing instruments used by DFIs operating in BRICS economies

Conclusion 1: DFIs in BRICS economies largely employ traditional financial instruments

The study revealed that DFIs in BRICS economies largely utilise traditional financing instruments in particular loan financing. Whilst equity finance is slowly gaining prominence, the magnitude of its use is still limited.

Conclusion 2: DFIs in BRICS economies do not employ innovative financial instruments and concessionary funding

The study revealed a gap in the use of innovative products such as project finance, public and private partnerships by DFIs operating in BRICS economies. This is inconsistent with theory that postulates the rising use of these instruments and their effectiveness in dealing with most of the emerging and developing economies needs. In addition, the study noted that development finance institutions either do not use concessionary financing or it is not significant enough.

Conclusion 3: DFIs are increasingly playing their catalytic role

The research revealed that DFIs are increasingly playing their catalytic role through the use of guarantees as a financing instrument. The use of guarantees was also noted as guarantees aid private sector to access funding from the conventional markets. In addition, DFIs are increasing utilizing technical assistance as a financing instrument.

Factors that influence development of financing instruments

Conclusion 4: There is evidence of mission drift, which influence the ultimate product offing

The research noted that there is a growing divergence between the founding objectives of the DFIs and their financing objectives. This points to the issue of mission drift. In addition, the issue of mission drift is consistent with finance literature on the agency theory, which states that management as agents of principals can push their own agent in their day to day running of businesses. The mission drift is then manifest in the deployment of products that are inconsistent with the original objectives.

Conclusion 5: there is no evidence that ESG standards influence the development of their financing instruments

The study noted that the Development Finance Institutions reviewed have not been proponents of the implementation of ESG standards in economies in which they operate. Notwithstanding the unsystematic application of ESG standards by DFIs, the study noted that some the DFIs considered social issues while a small proportion mention environmental issues in their objectives and even fewer mention governance in their objectives.

Conclusion 6: there is adequate evidence that DFIs in BRICS economies consider financing considerations such as return on investment, capital and funding structure in financing instrument formulation

The review is inconclusive on the relationship between the DFIs' funding structure and their financing instruments (application of funds). Notwithstanding, most DFIs are largely debt funded and their financing instruments (application of funds) were in debt instruments.

Conclusion 7: DFIs accept lower returns on equity

The returns on equity of most DFIs are lower which consistency with their developmental mandate.

5.2 Recommendations

Against the backdrop of this comparative study of the DFIs that are operating in the BRICS economies, the following policy recommendations are proposed to inform the development of financing instruments. The recommendations are based on the notion that the BRICS Development Bank will exist not only as competition to the existing DFIs but will also play a complementary role of servicing the currently unmet needs.

Instrument Gap…

Given the fact that new DFIs can play a complementary rather a competitive role, there is need for the BRICS Development Bank to model their financing instruments along the gaps noted, that is, to come up with products that address instruments under provisioning and lack of provision. The bank should thus promote the use of products among others; project finance and public–private partnerships that were found to be less prevalent especially for small infrastructure projects is more desirable in dealing with areas of unemployment. In addition, there is need to introduce products such quasi equity

instruments that are currently not provided by existing DFIs in the region. These DFIs have been used by European and American based institutions with success.

The levels of literacy and technical expertise in some of the BRICS countries are relatively low, particularly so in Africa. The quality of the funding proposals received could slow down the project evaluations if the proposals are of a low quality. It is advisable for the BRICS Development Bank to be very active in availing technical assistance during the proposal or tender stage and consider such assistance as one of the financing instruments. It should be considered in pre-project areas and also during the life of the project. The technical assistance required during the life of the project assists in project accountability being at the expected levels. Lack of such project accountability has the potential of delaying draw downs.

A number of Development Finance Institutions analysed in this report have used grant funding as one of the financing instruments. The use of grant funding as a financing instrument should be strongly considered by the BRICS Development Bank as part of achieving its development objectives. Our analysis has shown that it is not only possible to use the combination of market-related priced financing instruments such as debt and equity together with an element of grant funding, but this approach is already widely used. The objective of strengthening the links between economic and social strategies would be achieved more successfully if market-related priced financing instrument are combined with grant funding.

The role of the private sector has been demonstrated in this study, where development finance institutions finance either directly or work through the private sector. It would therefore be important to ensure that the BRICS Development Bank adopts financing instruments that will achieve collaboration between the private and the public sector. This collaboration will utilise fully the role of the private sector, which is regarded as performing better in sustainable job creation than the public sector.

The BRICS Development Bank should consider making supporting of and working with or through the private sector one of its financing objectives and then develop financing instruments that will ensure realisation of this objective.

One of the lessons for the BRICS Development Bank would be to adopt some of the activities of the KfW IPEX-Bank of developing in-depth knowledge of export finance and export credit guarantees, including advice in developing and improving conditions for BRICS export companies. This approach would be in line with South Africa's 2030 vision as contained in the National Planning Plan (2011).

Innovative range of products…

In addition to addressing the instrument gap, the BRICS Bank should also consider innovative products that take into account the developing and emerging economies realities such as the need for cheap long term funding. In addition, the BRICS Bank can play a catalystic role through coming up with products that support growth of private sector, against a background of low country ratings. Examples is provision of local currency dominated currency that help eliminate exchange rate risks and equity investments that do not have short term investment horizons.

The Bank should also, in its role of promoting standard setting, consider introduction of green financial products to promote green consciousness in the BRICS economic bloc. This is so given the context that the bloc is complicit on high levels of CO_2 emissions. The products should however be innovative enough to take into account the structural rigidities in these economies such as high levels of unemployment. Thus instead of emphasizing on just the green products, the bank should promote the use of green equipment.

Size of project funding…

Given the fact some DFIs are failing to fund projects of the scale required in emerging and developing economies, there is need for the BRICS Development Bank consider co-financing or syndicated financing. This approach assists in ensuring that there is bigger coverage of projects to be financed and the balance sheet of the BRICS Development Bank is extended to more projects. In addition, this approach also takes into account the size of the Bank's proposed capital, $50 billion.

Sectoral Gap…

Based on the research findings of a sectoral gap in business services and industry (mining and quarrying), there is need for the BRICS Bank to channel its efforts towards such sectors. This is also against the backdrop that the target economies of the bank, that is, the emerging and developing economies, are largely driven by mining and business services.

Governance…

The study revealed that the concept of mission drift was rife in DFIs as evidenced by the fact that there is a disparity between stated objectives and financial objectives. As such in much as financing instruments may be designed at inception, there is need for continuous monitoring to ensure that the original mandate is not lost along the way. There is thus a need for strong and robust governance structures to minimize the agency problems.

Development of monitoring and evaluation…

In addition to setting robust governance structures to deal with mission drift, there is need to develop a monitoring framework that evaluates the performance of management in implementing the mandate and deploying instruments as per stated objective.

In addition, there is need to develop standardized rating tools that will used in evaluating project's financial and development effects as to ensure that the Bank's founding development objectives are met. In addition the use of rating tools will also enable BRICS Bank to consider the financial viability and sustainability given the fact that the funders of the Bank also consider financial motive.

CHAPTER 6: RECOMMENDATIONS FOR FUTURE RESEARCH

On the basis of the results, conclusions and study limitations highlighted, the following study areas can be considered in the future:

a) A study to determine the extent of use of concessionary finance instrument by development finance institutions would assist especially in establishing the extent of its development impact.
b) This study shows that various development finance institutions have developed programmes of evaluating effectiveness of their investments; further study is needed to determine the balance of influence of the factors, other than the achievement of the founding and strategic objectives and would make a great contribution towards gathered knowledge.
c) A study on the extent of monitoring required by each financing instruments as a contributing factor to the selection of financing instrument by the development finance institution would be of assistance.
d) A study on the extent to which the risk profile of a particular financing instrument has as an influencing factor in its choice and usage, would be of importance.
e) A detailed future study that tests the alignment of the strategic objectives as developed by the board of directors or governors and the founding objectives as determined by the member states or shareholders would be of great benefit.
f) Further study should build on the general descriptions of various instruments, which are available in existing literature by analysing the effectiveness and suitability of the financing instruments for the chosen founding and strategic objectives.
g) Considering that guarantees have the ability to aid the private sector to access funding from the conventional markets, a future study as to why it is not widely used would be of assistance.
h) Whilst the author acknowledges that there is a relationship between how a development finance institution sources its funds and which financing instruments it used, further work would still need to be done to establish the reasons behind the correlation.
i) This study showed that the development finance institutions that had job creation as one of their stated objectives, also had private sector support as one of their objectives. A further study might assist in establishing empirically whether there is a positive correlation between private sector support and job creation.
j) Further work will need to be done to establish what could be the underlying reasons why issues of financial and economic considerations, as against stated founding or strategic objectives inform the design and implementation of financing instruments.

k) Further study to determine whether there is bias by DFIs in deploying resources in developing countries with rich natural resources, which could indicate preference of better returns over priorities of economic development.

l) The high use of the debt financing instrument should be investigated further, as the study has shown that the majority of the institutions use debt financing, to assess whether it is a better financing instrument to achieve the founding objectives of development finance institutions.

m) Whilst a great deal of work has been done on ESG in general, further studies specifically focusing on whether emphasis on ESG compliance presents financing obstacles for the developing countries should be conducted and would be a great contribution.

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Date accessed: 13/11/2014

APPENDIX A: List of selected Development Finance Institutions

Development Finance Institution	Abbreviation	Year Ending
African Development Bank	AFDB	31/12/2013
Common Wealth Development Corporation	CDC	31/12/2013
Development Bank of Southern Africa	DBSA	31/03/2013
Inter-American Development Bank	IADB	31/12/2013
Development Bank of Latin America	CAF	31/12/2013
Asian Development Bank	ADB	31/12/2013
Eurasian Development Bank	EDB	31/12/2013
European Investment Bank	EIB	31/12/2014
International Finance Corporation	IFC	30/06/2013
European Bank For Reconstruction And Development	EBRD	31/12/2013
Council Of Europe Development Bank	CEB	31/12/2013
French Agency for Development	AFD	31/12/2013
KfW Development Bank	KfW	31/12/2013

APPENDIX B:Summary of selected Development Finance Institutions

In this section, we introduce the development finance institutions, which are the subject of our study.

AFDB – African Development Bank

This information is extracted (some areas adapted) from the official website.
The agreement establishing The African Development bank (Reference As 2011 Edition) was signed on the fourth day of August 1963 in Khartoum, Sudan and was entered into force on the tenth day of September 1964. At the time of establishing African Development Bank there were twenty member counties with that number having grown to 53 African countries referred to as regional member countries and 25 non-African countries, referred to as non-regional member countries.

The preamble to the agreement emphasizes the purpose to be "economic co-operation... intended to...accelerating the development of the extensive human and natural resources of Africa in order to stimulate economic development and social progress ..."

Chapter 1 of the agreement (Purpose, Functions, and Membership) states the purpose of setting up as "The purpose of the Bank shall be to contribute to the sustainable economic development and social progress of its regional members individually and jointly".

The functions (as stated in article 2, give guidance of financing instruments which are, to promote investment in public and private capital, provision of technical assistance and co-operation with other institutions, in giving authority for "making or participating in direct loans..., by guaranteeing, in whole or in part..."

Common Wealth Development Corporation (CDC).

CDC was established in 1948 as the first ever development finance institution (DFI). Wholly owned by the UK government, it is part of the Department for International Development's (DFID) private sector strategy to alleviate poverty. The mission is to support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places.

Development Bank of Southern Africa (DBSA)

This information is extracted (sometimes adapted) from the official website.
Development Bank of Southern Africa was re-established by an Act of parliament "The Act"
The main object in the Act is stated as "To provide for the continued existence, and reconstitution of the juristic person known as the Development Bank of Southern Africa as a development finance institution with the primary purpose to promote economic development and growth, human resource development and institutional capacity building by mobilising financial and other resources from the national or international private and public sectors for sustainable development projects and programmes; and to provide for matters connected therewith.

The preamble to the act states the purpose of establishment as" to perform an economic development function" The main objects of the act include promotion of economic development and growth, support of development projects and programmes.

The manner of achieving the main objects include "providing technical assistance, particularly ....regard to the identification, preparation, evaluation, financing, implementation and management of development projects and programmes....facilitating the participation of the private sector... in development projects and programmes"

Inter-American Development Bank (IDB)

This information was extracted from the official website.

Inter- American Development Bank the Agreement Establishing the Inter-American Development Bank became effective December 30, 1959, and has been amended on several occasions. The latest amendments were those which took effect on July 31, 1995 relating to the Eighth General Increase in the Resources of the Bank.

The purpose of setting up Inter-American Development Bank is stated (purpose and functions) as the purpose of The Bank shall be to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively.

The relevant functions are stated as:

(a) To implement its purpose, the Bank shall have the following functions:

(i) to promote the investment of public and private capital for development purposes;

(ii) to utilise its own capital, funds raised by it in financial markets, and other available resources, for financing the development of the member countries, giving priority to those loans and guarantees that will contribute most effectively to their economic growth;

(iii) To encourage private investment in projects, enterprises, and activities contributing to economic development and to supplement private investment when private capital is not available on reasonable terms and conditions;

(iv) To provide technical assistance for the preparation, financing, and implementation of development plans and projects, including the study of priorities and the formulation of specific project proposals.

(b) The founding agreement directs the use of loans, guarantees and concessionary financing models.

(i) To provide technical assistance for the preparation, financing, an implementation of Development plans and projects, including the study of priorities and the formulation of specific project proposals.

The article dealing with operations includes the following details:" (a) the operations of the Bank shall be divided into ordinary operations and special operations." The ordinary operations are to be financed as ordinary funding as they are supposed to be "... subject to the terms and conditions that the Bank deems advisable..." On the other hand the special operations shall be financed from the "resources of the Fund".

"A Fund for Special Operations is established for the making of loans on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects."

The agreement recognizes a financing model of using intermediaries in stating "The resources and facilities of the Bank shall be used exclusively ..... as well as to finance the development of any of the members of the Caribbean Development Bank by providing loans and technical assistance to that institution".

The authority for methods of making or guaranteeing loans gives the mandate of making loans and guarantees also to the private sector and further state " Subject to the conditions stipulated in this article, the Bank may make or guarantee loans to any member, or any agency or political subdivision thereof, to any enterprise..."

Development Bank of Latin America (CAF)

The purpose of the CAF is to promote sustainable development and regional integration, by providing multiple financial services to clients in the public and private sectors of its Shareholder Countries.

Asian Development Bank (ADB)

This information has been extracted and sometimes adapted from the official website. The agreement establishing ADB under chapter I purpose, functions and membership states the purpose as "The purpose of the Bank shall be to foster economic growth and co-operation in the region of Asia and the Far East (hereinafter referred to as the "region") and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually"

The functions, according to the agreement are:
"To fulfil its purpose, the Bank shall have the following functions "(i) to promote investment in the region of public and private capital for development purposes..." (iv) to provide technical assistance for the preparation, financing and execution of development projects and programmes, including the formulation of specific project proposals... (v) to co-operate, in such manner as the Bank may deem appropriate, within the terms of this Agreement, with the United Nations, its organs and subsidiary bodies including, in particular, the Economic Commission for Asia and the Far East, and with public international organizations and other international institutions, as well as national entities whether public or private, which are concerned with the investment of development funds in the region, and to interest such institutions and entities in new opportunities for investment and assistance...."

The financing instruments according to the agreement are"... by making or participating in direct loans. by investment of funds ....in the equity capital of an institution or enterprise... by guaranteeing, whether as primary or secondary obligor, in whole or in part, loans for economic development...."

ADB's Public–Private Partnership (PPP) Operational Plan 2012–2020 guides its approach to private sector development.

Eurasian Development Bank (EDB)

The Eurasian Development Bank established to foster the strengthening and development of market economy in the member states and to enhance trade and economic integration among them by engaging in investment activities. The Bank shall promote international financial and economic co-operation through participation in the activities of other international financial and banking institutions and unions.

European Investment Bank (EIB)

The task of the Bank is to contribute towards the integration, balanced development and economic and social cohesion of the EU Member States. The EIB raises substantial volumes of funds on the capital markets and lends these funds on favourable terms to projects furthering EU policy objectives. The EIB continuously adapts its activities to developments in EU policies

International Finance Corporation (IFC)

The purpose of the IFC is to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas, thus supplementing the activities of the International Bank for Reconstruction and Development In carrying out this purpose, the IFC shall:

(i) in association with private investors, assist in financing the establishment, improvement and expansion of productive private enterprises which would contribute to the development of its member countries by making investments, without guarantee of repayment by the member government concerned, in cases where sufficient private capital is not available on reasonable terms;

(ii) seek to bring together investment opportunities, domestic and foreign private capital, and experienced management; and

(iii) seek to stimulate, and to help create conditions conducive to, the flow of private capital, domestic and foreign, into productive investment in member countries.

European Bank for Reconstruction and Development (EBRD)

The purpose of the EBRD is in contributing to economic progress and reconstruction, the purpose of the bank shall be to foster the transition towards open market-orientated economies and to promote private and entrepreneurial initiative in the central and eastern European countries committed to and applying the principals of multi-party democracy, pluralism and market economies
In this regard;

(i) To promote, through private and other interested investors the establishment and improvement of private sector especially SMEs
(ii) To mobilize domestic and foreign capital
(iii) To provide technical assistance
(iv) To stimulate and encourage the development of capital markets
(v) To promote in its activities environmentally sound and sustainable development.

Council for Europe Development Bank (CEB)

The Council of Europe Development Bank (CEB) was set up on 16 April 1956 in order to provide solutions to the problem of refugees. Since then it has adapted to changes in social priorities in Europe. Its mission is to contribute to strengthening social cohesion in Europe. The Council of Europe Development Bank (CEB) was set up on 16 April 1956 in order to provide solutions to the problem of refugees. Since then it has adapted to changes in social priorities in Europe. Its mission is to contribute to strengthening social cohesion in Europe.

French Agency for Development (AFD)

France's Inter ministerial Committee for International Cooperation and Development and the legislature's draft bill on development and international solidarity confirmed AFD's role as the pivotal actor in France's cooperation policy. They also clarified the Agency's mission: solidarity in facing

shared, worldwide challenges. This translates into partnerships tailored for each geographic region. Poverty alleviation remains their highest priority, which is why they concentrate two-thirds of their grant monies on the poorest countries, giving precedence to those in Africa

KfW IPEX-Bank

As a leading provider of project and export finance, KfW IIPEX-Bank ensures that German and European exporters are able to compete on the international stage, which in turn secures growth and jobs in Germany and Europe

Appendix C:

Breakdown of Global Value of Project Finance Initiatives by Geographical Area

	2003			2004		
Region	**Amount (US$ mil)**	**%**	**Number**	**Amount (US$ mil)**	**%**	**Number**
Africa/Middle East	7, 751.10	10.50	16	1, 982.80	1.70	31
Americas	13, 167.90	17.90	76	656.70	0.60	111
Central Asia/Asia Pacific	11, 341.30	15.40	60	58, 553.50	50.10	84
Europe	38, 297.60	52.10	151	5, 090.10	4.40	204
Japan	2, 979.70	4.00	14	367.10	0.30	35
Unknown	36.80	0.10	1	1, 994.10	1.70	3
Industry totals	**73, 574.50**	**100.00**	**318**	**116, 912.10**	**100.00**	**468**

Breakdown of Global Value of Project Finance Initiatives by Geographical Area...(continued)

	2005			2006		
Region	**Amount (US$ mil)**	**%**	**Number**	**Amount (US$ mil)**	**%**	**Number**
Africa/Middle East	30, 040.20	21.60	48	28, 345.40	21.50	30
Americas	26, 127.70	18.80	104	34, 743.60	26.30	71
Central Asia/Asia Pacific	23, 064.70	16.60	88	13, 952.60	10.60	43
Europe	56, 534.40	40.60	248	51, 205.30	38.80	136
Japan	3, 408.60	2.40	24	3, 706.30	2.80	24
Unknown	51.70	0	1	0	0	0
Industry totals	**139,227.30**	**100.00**	**318**	**116, 912.10**	**100.00**	**468**

Breakdown of Global Value of Project Finance Initiatives by Geographical Area...(continued)

	Total **2003 – 2006**			**CAGR** **2003 - 2006**
Region	**Amount (US$ mil)**	**%**	**Number**	
Africa/Middle East	83, 621.80	18.81	125	54.1%
Americas	102, 973.10	22.30	362	38.2%
Central Asia/Asia Pacific	79, 812.40	17.29	275	7.2%
Europe	179, 028.00	38.78	739	10.2%
Japan	16, 065.40	3.48	97	7.5%
Unknown	166.40	0.04	5	0
Industry totals	**461, 667.00**	**100.00**	**1, 603**	**21.5%**

Source: Gatti, S (2008) p 23 table 2.1

Appendix D:

Breakdown of Project Finance Initiatives Worldwide by Sector

	2003			2004		
Sector	**Amount (US$ mil)**	**%**	**Number**	**Amount (US$ mil)**	**%**	**Number**
Consumer products and services	623.30	0.80	14	1, 982.80	1.70	25
Consumer staples	405.00	0.60	3	656.70	0.60	2
Energy and power	35, 686.40	48.50	128	58, 553.50	50.10	191
Financials	6, 506.20	8.80	13	5, 090.10	4.40	30
Government agencies	589.90	0.80	8	367.10	0.30	4
Health care	638.20	0.90	9	1, 994.10	1.70	29
High technology	66.30	0.10	1	1, 400.90	1.20	5
Industrials	19, 378.00	26.30	92	24, 510.40	21.00	100
Materials	4, 081,10	5.50	23	12, 805.70	11.00	56
Media and entertainment	1, 689.30	2.30	9	4, 4 98.30	3.80	11
Real estate	745.60	1.00	7	177.30	0.20	4
Retail	0	0	0	0	0	0
Telecommunications	3, 165.10	4.30	11	4, 875.10	4.20	11
Industry Totals	**73, 574.50**	**100.00**	**318**	**116, 912.10**	**100.00**	**468**

Source: Gatti, S (2008) p 24 table 2.2

Breakdown of Project Finance Initiatives Worldwide by Sector... (continued)

	2005			2006		
Sector	**Amount (US$ mil)**	**%**	**Number**	**Amount (US$ mil)**	**%**	**Number**
Consumer products and services	4, 100.40	2.90	25	1, 656.20	1.30	14
Consumer staples	674.00	0.50	1	275.10	0.20	2
Energy and power	67, 044.90	48.20	247	67,114.10	50.90	161
Financials	6, 367.70	4.60	26	4029.20	3.10	9
Government agencies	789.00	0.60	6	963.20	0.70	5
Health care	2, 077.30	1.50	17	2, 009.50	1.50	12
High technology	155.70	0.10	2	750.00	0.60	1
Industrials	34, 176.00	24.50	107	38, 445.80	29.10	61
Materials	10, 629.60	7.60	45	9, 573.60	7.30	25
Media and entertainment	3, 759.70	2.70	11	2, 313.40	1.80	4
Real estate	1, 828.40	1.0	14	988.20	0.70	4
Retail	0	0	0	1, 543.10	1.20	1
Telecommunications	7, 624.60	5.50	12	2, 309.90	1.80	5
Industry Totals	**139, 227.30**	**100.00**	**513**	**131, 953.10**	**100.00**	**304**

Source: Gatti, S (2008) p 24 table 2.2

Breakdown of Project Finance Initiatives Worldwide by Sector...(continued)

	Total 2003 – 2006			CAGR 2003 – 2006
	Amount (US$ mil)	**%**	**Number**	
Consumer products and services	8, 362.70	1.81	78	**38.5%**
Consumer staples	1, 992.8	0.43	8	**-14.1%**
Energy and power	228, 398.90	49.47	727	**23.4%**
Financials	21, 993.20	4.76	78	**14.8%**
Government agencies	2, 709.20	0.95	23	**17.8%**
Health care	6, 719.10	1.46	67	**46.6%**
High technology	2, 372.90	0.51	9	**124.5%**
Industrials	116, 510.20	25.24	360	**25.7%**
Materials	37, 090.00	8.03	149	**32.9%**
Media and entertainment	12, 260.70	2.66	35	**11.0%**
Real estate	3, 739.50	0.81	29	**9.8%**
Retail	1, 543.10	0.33	1	
Telecommunications	17, 974.70	3.89	39	**-10.0%**
Industry Totals	**461, 667.00**	**100.00**	**1, 603**	**21.5%**

Source: Gatti, S (2008) p 24 table 2.2

APPENDIX E: Extracts from the National Development Plan.

National Development Plan Vision for 2030

Introduction

No political democracy can survive and flourish if the mass of the people remain in poverty, without land, without tangible prospects for a better life. Attacking poverty and deprivation must therefore be the first priority of a democratic government. – The Reconstruction and Development Programme, 1994.

South Africa has the potential and capacity to eliminate poverty and reduce inequality over the next two decades. This requires a new approach – one that moves from a passive citizenry receiving services from the State to one that systematically includes the socially and economically excluded, where people are active champions of their own development and where government works effectively to develop people's capabilities to lead the lives they desire. The success of this approach is premised on:

- The active efforts and participation of all South Africans in their own development
- Redressing the injustices of the past effectively
- Faster economic growth and higher investment and employment
- Rising standards of education, a healthy population and effective social protection
- Strengthening the links between economic and social strategies
- An effective and capable government
- Collaboration between the private and public sectors
- Leadership from all sectors in society. "

Government's strategy to date has been to provide a range of social services, including social security because of the uneven capability of the state, they have excelled at doing the things that are easier, such as paying grants and providing water and electricity and faltered at doing the difficult things such as improving education, promoting employment and building houses close to jobs, By default, they have had a distorted development effort. A more capable State, in partnership with communities, must build on the platform of social services and social services and social security and contribute towards a more balanced approach by developing the capabilities of people. This is the shift they seek.

Developing and upgrading capabilities to enable sustainable and inclusive development requires a new mindset. The story we propose to write involves:

- Creating jobs and livelihoods
- Expanding infrastructure
- Transitioning to a low-carbon economy
- Transforming urban and rural spaces
- Improving education and training
- Providing quality health care
- Building a capable state
- Fighting corruption and enhancing accountability
- Transforming society and uniting the nation

Extracts from the National Development Plan...(continued)

Indicative scenarios – Employment outcomes by 2030

Sectors	2010	2030		
Thousands	Employment in 2010	Scenario 1 mediocre minerals	Scenario 2 solid minerals	Scenario 3 diversified
Agriculture	627	514	627	804
Mining	297	269	388	437
Manufacturing	1 556	1 880	2 169	2 289
Leader & high paid services (e.g. finance, transport)	2 025	3 009	3 657	4 188
Follower services (e.g. retails, personal services)	1 927	4 1801	4 875	4 967
Construction & utilities	828	1 054	1 278	1 407
Informal sector & domestic work; excl EPWP	2 922	4 093	4 604	5 012
Public sector, private social services & parastatals	2 529	3 278	3 518	4 225
Expanded Public Works Programme (EPWP)	420	5 483	2 644	431